# ANNEX A

TO THE

# STATE OF THE NATION MESSAGE

OF

# PRESIDENT DIOSDADO MACAPAGAL

JANUARY 22, 1962

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# A PROPOSED FIVE-YEAR INTEGRATED PROGRAM FOR SOCIO-ECONOMIC DEVELOPMENT

(1963–1967)

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# A PROPOSED FIVE-YEAR INTEGRATED PROGRAM FOR SOCIO-ECONOMIC DEVELOPMENT

(1963–1967)

## Chapter I

### BASIC PRINCIPLES AND GENERAL APPROACH TO ECONOMIC PROBLEMS

The Macapagal Administration's economic program flows from the following basic principles and policies.

1. The provision of growing sources of livelihood for the Filipino nation is today's most urgent problem. To this the government's prime efforts must be bent. The ambitions of any party or person must be submerged in a total dedication to this overriding task. The machinery of government must be transformed from one designed to ensure the continuance in power of any person or party or to serve the selfish interest of public officials into an effective machine for satisfying the nation's aspirations for a rising standard of living.

2. The task of economic development belongs principally to private enterprise and not to government. The government was not established to go into business. The government can never become a good businessman because of the interference of political factors and because those running the business have no genuine concern for the success of the venture.

3. The principal responsibility for development belongs to Filipino citizens. They must be the principal determinants as well as the chief beneficiaries of economic progress. At the same time the Filipino will welcome all foreign assistance that does not wrest from him his supremacy over his own economic affairs. The new Administration is pledged to see that all such assistance shall be treated with justice.

4. The role of the government is to create a favorable environment for and to assist private business in the performance of its rightful task of developing the country and its resources, to provide guidance and inducements, to protect nationals in their legitimate aspirations and to ensure the just treatment of foreigners who provide assistance to nationals in the establishment and operation of business ventures in this country.

5. To perform its role effectively, the government must win back the confidence of all segments of the population in its integrity. Without such integrity it would be futile to hope that any of our

serious economic problems would be susceptible to solution. The wisest solution to economic problems will be in vain if we do not have in the government the right men, who by reason of established integrity can be depended upon to implement effectively such a solution.

6. The root source of the corruption that has lost for the government the respect and confidence of the people is excessive economic power. In the last ten years, that power has grown, has become more oppressive, and has corrupted both the officials who have exercised it and the private people who were its subjects. We must now reverse the trend and not only stop the growth of this power but reduce its scope absolutely. The exchange controls at present administered by the Central Bank must be speedily and systematically removed and the fulfillment of their legitimate objectives accomplished by other means. We must find a mechanism for the distribution of credit resources concentrated in the hands of government in a manner that does not give public officials undue power over individual businesses. The administration of internal revenue and customs laws must be reformed to free individual businessmen from the arbitrary exercise of discretion on the part of public servants.

7. The entire government must become no longer a parody and a mockery but a model of efficient, economical and parsimonious administration.

8. It is one of the obligations of the government to be a stabilizing influence on business activity. The government's plans, programs and policies on the basis of which business must plan its operations, must therefore be clear-cut and stable and must not be subject to untimely, drastic and precipitous changes.

### *The Magnitude of Our Economic Task*

Between the last two censuses in 1948 and 1960, a span of twelve years, our population has grown from 19.8 million people to 27.5 million or an increase of 7.7 million. By the time the new administration assumed office the numbers had grown to over 29 million. By the end of the Presidential term the number of our people will have grown by another four and one-fourth million. We are now growing at the rate of over a million people a year.

If we wish merely to maintain consumption of essential foods, rice, bread, meat and dairy products at present level, we must increase rice production by 1.56 million cavans per year, meat by 14 million kilos and milk and dairy products by 11 million. Present levels are by no means ideal compared to the standards achieved in more prosperous countries. We must increase per capita availabilities if there is to be real progress in the livelihood of our people.

### *The Magnitude of Our Housing Problem*

In 1960 there were 4,566,000 households in the country. By 1965 there will be some five and one-third million. From 1948 to 1960 some 81,000 new households were formed each year. From 1960 to 1965 it is estimated that there will be 130,000 households formed for each year. These households are rapidly concentrating in urban centers such as Manila and its environs, Cebu, large towns like Dagupan, Legaspi, Bacolod, Cagayan de Oro, Davao. The present inadequate housing calls for the investment of large resources not merely to re-settle the present households in more civilized dwellings but also to provide for the yearly increment of over 130,000 new households during the next five years.

The requirements from government must grow apace. In education alone every year there will be an average of 960 thousand children coming of school age. Even allowing for the normal attrition in the student population due to normal graduation or the dropping out of students for any number of reasons the total student population of the country will still continue to increase at the rate of 600 thousand each year.

Population increase and the formation of households mean additional people that will need sources of livelihood. In 1960 the number of people either employed or actively working for employment was 10.2 million. On the basis of present population growth this number will probably grow at the average rate of 360 thousand every year for the next five years. The number of people totally unemployed in 1960 was estimated at 730 thousand. If we are merely to prevent the unemployment rate from increasing, productive opportunities must be created for over 400 thousand people each year.

This country is blessed with bountiful natural resources with which it is possible not merely to sustain growing numbers but to provide them with an adequate, even somewhat comfortable living. Those natural resources must be developed and economically exploited. To do this, tremendous resources and prodigious efforts must be mobilized and applied wisely and judiciously.

This "Integrated Economic Development Program" outlines the targets and the means for a total national effort to improve the economic welfare of the nation, distribute the burdens and benefits of development more equitably, and lay a firm base and a beneficent superstructure for a stable and unrelenting growth of the economy's productive capacity.

## Chapter II

### THE PRESENT ECONOMIC SITUATION

The principal pledge of the President is to improve the economic welfare of the nation. This integrated economic program (for fiscal year ending 1963 to 1967) reduces that pledge to specific objectives and means.

Economic welfare is measurable in terms of the level of living of the nation as a whole and the individuals who compose it. Specifically, the quality of that living is measured by the level of consumption of private goods and services and of necessary government services.

*The state of welfare.* In comparison with the levels of living of the relatively wealthier countries, that in the Philippines is far from adequate.

The per capita Philippine consumption of superior foods like meat, eggs and milk, beans and vegetables is at a level far below healthy nutrition standards and much lower than that in wealthier countries. This is evident in the following table:

*Philippine per Capita Consumption of Superior Nutrients, 1960*

(Kgs. per capita)

| Items | Philippine Consumption 1960 | Philippine Nutrition Standard | United States | France | Brazil |
|---|---|---|---|---|---|
| Meat and poultry | 13.99 | 33.13 | 88.00 | 44.6 | 42.2 |
| Eggs and milk | 15.61 | 28.40 | 248.39 | 79.9 | 75.9 |
| Beans and vegetables | 20.52 | 54.75 | 65.86 | 167.1 | 121.1 |
| Fruits and nuts | 36.77 | 89.06 | 88.05 | | |

As a result, the Filipinos eat more than the prescribed amount of rice, which, compared with other foods provides a cheaper means of merely filling the human stomach. Thus, in 1960, average per capita consumption of cereals in the Philippines was 125.28 kilograms compared to a prescribed nutrition standard of 101.94 kilograms.

Within the nation, the distribution of welfare is far from satisfactory. This is indeed a nation of contrasts where a few regions and communities enjoy affluence in contrast to widespread poverty in others.

The survey of Philippine households undertaken by the PSSH in 1957 reveals some of the contrasts.

PHILIPPINES: *Comparative Regional per Capita Consumption Expenditures and Consumption of Selected Foods*[1]

| Item | Metropolitan Manila | Middle Class Region | Lower Class Regions |
|---|---|---|---|
| 1. Annual per capita consumption expenditures, 1957 | ₱1,055 | ₱350–₱400 | ₱180–₱280 |
| 2. Daily per Capita Intake of Selected Foods, 1957–58— | | | |
| Rice, grams | 240 | 424 | 390 |
| Root crop products, grams | 11 | 6 | 71 |
| Meat and poultry | 45 | 23 | 15 |
| Milk and milk products | 74 | 24 | 15 |

The objectives of this integrated economic program must be translated into specific improvements in the over-all level of economic welfare and in its distribution. Improvement in this sense means that our production capacity must grow more rapidly than the growth of our population. It also means that those regions that have lagged behind in progress must be given special assistance to enable them to participate more fully in over-all national progress.

### *The Basis Of Past Economic Growth*

The growth of the Philippine economy during the decade of the fifties, its departure from traditional patterns of consumption, investment and business behavior has been impressive. It is important, however, to look at the framework of economic opportunities and of laws and policies within which this transformation took place.

What gave this era its particular character were a series of governmental decisions embodied in administrative circulars and legislation. Of these the principal ones were first, Circular No. 20 of December 9, 1949 which imposed exchange controls in the country. Implied in this action was the decision of the government not to use devaluation as an instrument for correcting a persistent balance of payments deficit. It was decided then that the legal parity of ₱2.00 per dollar would be maintained. Second, the passage of the Tax Exemption Law, Republic Act No. 901 on June 30, 1953 which expanded the tax exemption privileges provided by Republic Act No. 35 to include all customs duties, compensating taxes, sales taxes

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SOURCES: Institute of Nutrition PSSH Family Income and Expenditure Survey, March 1957.

[1] Middle class regions consisted of the Ilocos Region, Cagayan Valley, Central Luzon, Southern Luzon and Western Visayas. Food intake in Central Luzon was used as representative of the group. All the other regions constitute the lower class group and the food intake of Bicol Region was used to represent the group.

ernal revenue taxes including income tax. Third, the triumph of expansionary policies in 1954 as embodied in the passage of Republic Act No. 1000 which authorized a national government bond issue of one billion pesos for reconstruction and development and in the adoption of liberal credit policies by the Central Bank.

There were certain economic circumstances also which characterized the period.

First, the country's traditional export industries had just been restored to pre-war capacities. In the case, for example, of coconut, copra and sugar, the pre-war facilities were completely restored only about the beginning of the decade. This was largely true of the mining industry and of logging and lumber mills. In the case of abaca, the loss of the former Japanese plantations in the South has never been fully restored.

Second, the world market for copra, the principal export of the country, was extremely strong and stable and remained so all throughout the decade.

Third, at the beginning of the decade, there was hardly any manufacturing enterprise in the country. The imports of consumer goods constituted the main bulk of the country's purchases, abroad and these were brought in in finished forms. Textiles were our largest single item of import. With the exception of the textile mills of the National Development Company (NDC), there was no modern textile industry in the country to speak of.

Fourth, the country started with a high level of foreign exchange reserves.

Fifth, the Philippines was still collecting in the early part of the decade some war damage payments from the United States and a good bit of aid.

These five sets of economic factors made available to the country sources of economic growth which could be readily exploited without too much additional capital investments. The restoration of export capacity meant that as long as world demand for the country's traditional exports was sustained at a high level, domestic production could be increased readily with small applications of additional capital to meet the demand. In the field of manufacturing large domestic demand existed for many items. These were generally imported in finished form notwithstanding the fact that the final stages of finishing, fabricating and packaging involved simple technical processes and could be undertaken readily by domestic enterprises as long as adequate inducements existed.

The high level of foreign exchange reserves and the availability of war damage payments from the United States together with the sustained volume of world demand for the country's traditional exports made it possible to sustain the high level of importation.

The economic factors thus made available to the country during the decade of the fifties a large volume of commodities contributed by the restoration of domestic production facilities and a large capability to import. The Government policies on the other hand, created a climate which induced the population to use a large proportion of the available production and importation of the country for consumption and to apply a relatively small proportion to investments of a particular character. The most favored outlet for investments during the fifties was the establishment of light manufacturing enterprises producing consumer goods by simple processing or packaging of imported materials. These industries had some characteristics in common. They involved relatively small investments in fixed capital assets. The principal items of investment were materials inventories, largely of foreign origin. Relative to the amount of capital investment these businesses turned-over a large volume of production and sales.

What made enterprises of this character attractive were the two principal policies that created the investment climate of the period namely: the system of exchange controls that maintained the exchange rate at ₱2.00 per $1.00 and the tax exemption law which exempted new and necessary industries from import taxes and internal revenue levies.

It became relatively easy for entrepreneurs to launch enterprises of this type. For one thing, they were extremely profitable. There are in the structure of profits in an economy three components: first, profits originating from Government policies such as protective tariffs and the maintenance of an artificially low price for foreign exchange; second, profits from real economies of marketing, storage and distribution, and third, economies from processing and manufactures. Normally, enterprises look to the second and the third sources for their principal inducement. In the Philippines during the fifties, the first component became by far the most important of the sources of profit so-much-so that the grant of a dollar allocation became a guarantee of profitability. There were unfortunately many instances where real economics in processing and marketing were not present but so large was the profit on the dollar allocation, that a business enterprise could be uneconomical and still be profitable.

The financing requirements of each enterprise could be relatively modest and could be raised largely from bank borrowings. A small amount of family savings could be made to go a long way just so dollar allocations could be secured from the Central Bank. In an operation where the principal recurring operating cost is purchase of imports, bank financing through letters of credit and trust receipt facilities are readily available.

The situation opened up more avenues of investments than would have been feasible and desirable under more normal circumstances. Small uneconomic scale processing which would have been uneconomical under normal market situations became feasible in a situation where the principal source of profit was the profit from the dollar allocation. It became possible to overcrowd an industry to a degree which would ordinarily have forced less efficient firms into bankruptcy.

### *Over-all Growth Rates*

The character of the period was manifested in some of the over-all statistics of economic growth during this era. Taking the period from 1950 to 1959 as a whole, gross domestic product, increased at a compound rate of 6.3 per cent per year while total population grew at about 3 per cent. The following sectors accounted for the growth.

1. The export sector sparked by the sustained high level of world demand. The mining sector grew at the rate of 9 per cent per annum during the period and the agricultural sector at the rate of about 3.9 per cent per annum.
2. Manufacturing showed the most rapid growth of 11% per annum.

Domestic production was augmented by substantial importation. Imports were financed by rising export receipts, by the in-flow of foreign capital largely in the form of re-invested earnings, substantial foreign donations and by a reduction in the country's international reserves.

The combination of growing domestic production and substantial imports increased the availability of goods and services in the economy. These were largely absorbed by consumption which increased at the rate of 3.3% per annum per capita. Investments were only increased on a per capita basis at the rate of 1.3% per year. During that period the country was only investing at the rate of ₱8.62 for every ₱100.00 worth of gross product available. The rapid growth in domestic production was achieved with relatively small investments of capital. During the decade, it took only ₱1.36 of investments to get each ₱1.00 increased in domestic product.

All these factors are unmistakable marks of the investment climate of that period: the cheap dollar policy, the tax exemption, the virgin field for investments in domestic processing and packaging of import substitutes, the large capabilities of the country to finance imports with export earnings, in-flow of foreign capital, foreign aid and out of the international reserves.

### *Recent Changes In Policies*

In the last two years, fairly radical changes in policies have occurred. On April 25, 1960 the cheap dollar policy of the Central Bank came to a close. The policy had undergone several modifications before that date. But these modifications took somewhat less direct forms. Thus the exchange tax of 17% increased the exchange rate for most important transactions from ₱2.015 to ₱2.358. Barter made it possible for exporters of certain grades of commodities to appropriate a portion of the premium on foreign exchange. Finally, the margin fee which replaced the exchange tax has effectively raised the exchange rate.

On December 31, 1955, Executive Order No. 150 increased tariff duties on several commodities and on June 22, 1957, Congress passed the Revised Customs Code of the Philippines which also raised the duties on some lines of imports. This had the effect of raising the cost of imports. But it was not until April 25, 1960 that the Government took official cognizance of the fact that the rate of ₱2.00 per US $1.00 was unrealistic.

Many firms are now losing gradually the benefits of the tax exemption law. In its stead, the Basic Industries Act provides a more limited tax exemption for the machinery and equipment importation of "basic industries." Only import duties, special import taxes and other levies on importation are waived.

What this means is that over-all profits on foreign exchange will cease to be a source of inducement for investments. To some extent, the Basic Industries Act and the tariff code may provide specific inducements to particular types of enterprises. It is safe to conjecture, however, that more than at any time during the last ten years, business enterprises will have to rely for attractiveness on the fruits of economic efficiency in processing and in distribution.

## *Significance of the New Policies*

Two conclusions follow from the premises:

1. The field for investment during the next ten years will be much narrower at the start because the tests of attractiveness and feasibility will be more rigorous.
2. The character of the investments will change. More basic developmental effort will be necessary.

Further development of mining, agriculture and forestry will involve more substantial investments in basic facilities—roads, irrigation and water control system, warehouses, heavy equipment for clearing and cultivating, pest control equipment, housing, etc. This is the result of bringing land under cultivation which is in less developed areas that must be exploited for settlement. The development of forestry will involve exploiting more remote timber stands. The expansion of mineral production will mean more extensive exploitation and the development of deposits in more remote places. Further progress in industrialization will mean the establishment of facilities for processing materials in a more raw state.

During the past ten years, the chief industries which were newly established, being devoted to the later stages of processing, assembly and packaging, had to be located in or around Manila, near the principal markets. In the coming years, the principal industries may be located near sources of cheap power or raw materials. Larger investments will be required in the country to set up new communities with all the facilities involved in building water systems, electric power generating and distribution plants, sewerage systems, housing, roads and communications facilities.

Further growth in the Philippine economy will thus involve larger average investments than in the past. The country will need to rely to a larger extent on external resources from foreign aid, institutional loans, and foreign investment.

To look at this picture in terms of the statistics of over-all economic performance, if from 1950 to 1959 the equivalent of ₱1.00 of additional output in the economy could be achieved by over-all investments in fixed assets and inventory of ₱1.36 in the coming years it will probably take between ₱2.50 and ₱3.00 of investment to achieve ₱1.00 of growth.

The other side of investment is saving. To try and double the rate of investment will mean that we have to increase the rate of savings in order to continue the growth of per capita product in this country.

# Chapter III

## SUMMARY OF THE PROGRAM

This economic program outlines in terms of broad orders of magnitudes the approximate targets that public and private sectors should try to achieve in the five years from fiscal year 1963 to 1967 if the Philippine population is to enjoy a continuous improvement in levels of living.

The targets are perhaps more indicative of directions rather than of absolute levels. They point up, however, the urgency of Philippine economic problems and the general priorities of required action.

In setting the targets for the next five fiscal years, certain basic realities of the current Philippine economic situation were recognized.

1. The country has fully exhausted the potentialities for growth offered by the complement of policies ruling over the decade of the 1950's. Over the last three years from 1958 to 1960, the growth rate of real gross national product has declined.
2. The impetus to investments which exchange controls, an exchange rate that overvalued the peso, and various tax incentives provided has worked itself out.
3. The country already enjoys to the full the export potential feasible under present exchange and trade policies. The weakening of copra prices has caused the country's export earnings to level off from the rather steep growth of the last ten years.
4. In the meantime, the Philippine population grows at a rate of 3.2 per cent per year, among the highest in the world. The country's requirements for consumer and capital goods grow. The international reserves have dropped to a precariously low level.

The very urgency of the situation has made it obvious that some drastic changes in monetary, fiscal and exchange policies are in the offing. Pending government action, speculation is the order of the day. Exporters are holding back negotiations of export sales. Importers are hastening to buy foreign exchange to build-up inventories of imported goods in anticipation of higher costs. Investors have for at least the past three years held off making long-range plans until the government policies became clearer and more stable.

The climate, far from being beneficent to the type of long-term saving and investment which our situation requires, is hostile to long-range planning and encourages short-term speculation.

Immediate government action is imperative *first* to establish immediately a new, stable base for business valuation and planning to remove the uncertainty that pervades the present economic atmosphere and *second* to set clear directions for over-all economic, monetary, fiscal and commercial policies and for government investment programs in order to generate a new dynamic for continued economic growth.

This integrated Economic Program is the President's blueprint for filling these two requirements.

### *Restoring Stability*

The present speculative atmosphere in Philippine business springs from uncertainty with respect to—

1. The foreign exchange policies of the Government particularly (*a*) the future level of the Central Bank's and Commercial Bank's buying and selling rates for foreign exchange and (*b*) the system of foreign exchange distribution, to what extent decisions will be transferred to a true free market.
2. The directions of Government commercial policy: what will be the instruments of protection and how these shall be used.
3. The Government's new attitudes and policies that will govern foreign investments in the Philippines.
4. How the Government will reconcile the attraction of foreign investors with the need of Filipino businessmen for initial protection.

With the objective of immediately stabilizing the economy, and apropos of the four principal sources of instability, this program embodies—

1. A program of exchange rate adjustment and unification and a procedure for orderly decontrol to transfer the allocation of foreign exchange to a genuinely free market;
2. A set of complementary measures to protect Philippine and Filipino industry and agriculture from undue foreign competition at their "infant" stages; and

3. A set of policies and measures to provide guarantees to foreign investors in particular lines of investments, principally mineral exploration and heavy industries such as iron and steel and basic chemicals, together with an official declaration of preference for joint international business ventures with substantial Filipino capital and management participation.

### *A Five-Year Program for Economic Growth*

The program covers anticipated national requirements and resources for the fiscal years 1963 to 1967.*

It takes into consideration the requirement of a Philippine population increasing at the rate of 3.2 per cent per annum now, and at an expected rate of 3.3 per cent per annum by the middle of 1967. Over the planning period it is expected that there will be one million more people every year and net additions to the nation's labor force will be in the magnitude of 360 thousand yearly.

In order to meet the requirements and to improve over-all levels of living, gross domestic product needs to grow over the five-year period, at a compound rate of 6 per cent. The annual growth rate must rise from 5.5 per cent between 1962 and 1963 up to 7.0 per cent from 1966 to 1967.

The targets are feasible provided—

1. An average of 16.1 per cent of gross domestic product is channeled into gross domestic investments during the five fiscal years;
2. Gross domestic savings including reinvestments of foreign earnings in the Philippines reach 13 per cent of gross domestic product in FY 1963, 13.8 per cent in 1964, 14.6 per cent in 1965, 15.4 per cent in 1966, and 16.0 per cent in 1967;
3. There is a total net inflow of new foreign capital into the country of roughly U.S. $860 million during the five-year period; and
4. The export earnings of the country total U.S. $3.7 billion during the period or an average of $740 million annually.

The rate of gross domestic investments is intended to mobilize new capital formation of ₱12.7 billion over the five fiscal years. This amount has been allocated on the basis of a first approximation of sectoral and regional priorities that give priority to the production of import substitutes such as integrated iron and steel, basic chemicals, pulping plants, expansion of agricultural food production and processing and the development of the cattle and dairy industries.

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* The Philippine fiscal year extends from July 1st to June 30th.

The Government's share in the total investment target was placed at ₱2.7 billion or 22 per cent of the total target of ₱12.7 billion. The public investment program includes principally ₱1.3 billion for water supply, roads, highways and irrigation and ₱1.1 billion for power development, expansion of railroad units and of telecommunications.

In these magnitudes, the total program can be financed entirely from non-inflationary sources: from domestic savings and foreign loans and investments. In addition to the normal growth of domestic saving flowing through such financial intermediaries as the commercial banks, the Government Service Insurance System, the Social Security System, the Postal Savings banks and the private insurance companies, the program contemplates the establishment of rural savings institutions and cooperative banks to encourage systematic savings out of current incomes in the farm areas.

The anticipated government revenues during the program period are expected to cover current expenditures and a little savings to finance a portion of the public investment program. The balance will be financed out of bond issues sold at *competitive money rates* to insurance companies, pension funds, banks and other private investors.

Perhaps the most important feature of the present program is the contemplated reorganization of public Administration to improve the machinery for the formulation and implementation of consistent economic plans and fiscal and monetary policies, to achieve maximum coordination among the various departments of the Executive Branch of Government in the pursuit of economic objectives, and to attain more rigorous control over government budgetary and developmental expenditures.

The responsibilities of each department of the Government, of each agency and corporation shall be clearly defined in regard to this economic program to the end that every power, facility and office is mobilized to achieve the goals set forth therein.

The exchange rate adjustment and the stabilization program are expected of themselves to create a fundamental climate favorable to investments in more basic industries. The role of Government will be to provide direct assistance where needed, remove bottlenecks, and establish required social overhead facilities.

## Chapter IV

## THE OVER-ALL TARGETS OF THE PROGRAM

(FY Ending 1963–1967)

The goals of the program are simply to insure that domestic production, augmented by imports, shall be adequate to provide for the needs of our growing population. Fortunately, the resources that can be mobilized and used judiciously are tremendous. The program envisions that such judicious utilization of these resources will ensure that the pattern and structure of our production will be such that the maximum feasible amount is produced for both domestic and export needs.

### *Over-all Requirements*

Over the five-year period of the program, it is expected that domestic production can be increased at an average annual rate of about 6 per cent, starting from its present rate (1956 to 1960) of about five-and-one-half per cent to about 7 per cent by the end of the program period. By mid-1967, domestic production shall then have increased by 50.9 per cent of its 1960 level. The gross domestic product by that time will then amount to about ₱17,841 million (at 1960 prices), compared to ₱11,822 million in 1960.

Imports of producer and consumer goods will need to grow by 45 per cent to a level of ₱1,906 million (at 1960 prices) by the end of fiscal year 1967. Private consumption expenditures will increase by 45.2 per cent to a level of ₱13,512 million (at 1960 prices) in contrast to ₱9,304 million in 1960.

### *The Investment Targets*

For the production targets to be met, the country's production facilities must be augmented by a total equivalent of ₱12,053 million of gross fixed investments, or an annual average of ₱2,410 million. These investments must be programmed and carefully allocated to the various sectors of the economy so that bottlenecks to production are neither created nor allowed to persist. Inasmuch as sectors of the economy are inter-related in the sense that they purchase one another's produce, the program for a balanced growth requires that production capacities in each sector must increase in harmony with those of the others. Thus, to attain the target increase in domestic product, the total requirements for fixed investments may be broken down into the various sectors as follows:

*Gross Fixed Investment Requirements by Sectors, FY 1963-1967*

| Sector | Total Fixed Investments for the period (Million pesos at 1960 Prices) | Per cent Distribution |
|---|---|---|
| Agriculture | 809 | 6.71 |
| Mining | 399 | 3.31 |
| Manufacturing | 3,929 | 32.57 |
| Construction (including Public Works) | 2,429 | 20.15 |
| Transportation and Communication | 4,000 | 33.19 |
| All Other Sectors | 490 | 4.07 |
| Total | 12,053 | 100.00 |

Of the total fixed investment requirements for the five-year period of the program, investments in mining and manufacturing represent an increase in the proportion to total fixed investments from 27 per cent in the past period from 1956 to 1959 to about 36 per cent during the program period. This increase underlines the great need for basic industries which will supply existing light industries with raw materials which are presently imported from abroad. These basic industries include: basic metals and products, basic chemicals, pulp and paper, integrated textile mills, and other.

The program also requires fairly large investments in basic facilities such as roads and irrigation facilities, and in transportation and communication. To a large extent, the expansion of basic industries hinges on the investment program for basic facilities, since these industries may require dispersal to sources of raw materials.

The investment requirements for basic facilities will, in turn, rely heavily on government sources. Thus, of the total fixed investment requirements, the program envisions that it is feasible for the government to put up directly ₱2,809 million over the period for social overhead facilities, hydroelectric power, irrigation systems, harbor facilities, new roads, development of land, forest and mineral resources, etc. These investments will amount to an annual average of ₱562 million.

The program anticipates that, with the creation of the proper investment climate, the balance of fixed investment requirements amounting to ₱9,244 million (at 1960 prices), plus net additions to inventory of ₱604 million, can be adequately generated by the private sector.

On the basis of these investment targets, it is estimated that the national income (at factor cost) that will be generated from each sector will be as follows:

*National Income at Factor Cost by Industrial Origin, FY 1963–1967*
(Millions of pesos at 1960 prices)

| Sector | FY 1960 | FY 1963 | FY 1964 | FY 1965 | FY 1966 | FY 1967 |
|---|---|---|---|---|---|---|
| Agriculture | 3,472 | 3,702 | 3,835 | 3,973 | 4,116 | 4,257 |
| Industry | 1,970 | 2,542 | 2,819 | 3,126 | 3,467 | 3,850 |
| Construction | 324 | 408 | 450 | 498 | 550 | 607 |
| Basic facilities, trade and services | 4,488 | 5,433 | 5,604 | 5,809 | 6,067 | 6,448 |
| National Income | 10,254 | 12,085 | 12,708 | 13,406 | 14,209 | 15,162 |

### *The Financing Gross of Domestic Investments*

Including net additions to inventories, the total gross domestic investment requirements of the program over the five-year period amount to ₱12,693 million, or an annual average of ₱2,539 million (at 1960 prices).

Of the total investment requirements, gross domestic savings (including reinvested earnings of foreign enterprises) are expected to finance ₱11,385 million, or about 89 per cent. This means that the rate of gross domestic savings must gradually be increased from the present level of 12.7 per cent of gross income to about 16 per cent by the end of the program period. It is expected that net foreign investment can provide the balance of ₱1,408 million (at 1960 prices), or 11 per cent of gross domestic investments. This amount of foreign investment is deemed feasible and is well within the capacity of the economy to service and repay.

### *The Foreign Exchange Budget*

To sustain the foreign exchange requirements of the program, gains from the country's foreign trade need to be maximized. Export incomes must be increased through volume expansions and the preservation of our terms-of-trade. With appropriate government support, it should be feasible to export to neighboring countries of our light manufacturing: textiles, shoes, pharmaceuticals, even cement and wall boards. Paying greater attention to the preservation of our terms-of-trade, we may expect substantial foreign exchange earnings from our traditional crops. Over fiscal years 1963 to 1967, our total export receipts from these crops are anticipated to be as follows:

| | |
|---|---|
| Coconut Products | $1,042 Mn. |
| Sugar | 668 |
| Logs and Lumber | 457 |
| Abaca | 209 |
| Copper concentrates | 96 |
| Chromite Ore | 85 |
| Iron Ore | 58 |
| Sub-total | $2,615 |
| Other Exports | 329 |
| Total Commodity Exports | $2,944 |

With the expected earnings from these commodities, as well as from receipts from U.S. Government expenditures, other services, and the anticipated inflow of foreign capital through donations, loans and private investments, it is believed feasible, within the program period, to generate sufficient capacity for external payments of imports of goods and services and the servicing of foreign investment, as well as to effect an annual addition to the international reserves of $50 million. The total budget for foreign exchange is summarized in the following table, the details of which are discussed in Chapter VII.

PHILIPPINES: *Total Capacity for External Payments and Capacity to Import*
(Million U. S. Dollars)

| | FISCAL YEARS | | | | |
|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 |
| Exports | 702 | 721 | 739 | 757 | 775 |
| Terms-of-trade effect | — | — | — | — | — |
| Inflow of foreign capital[1] | 158 | 188 | 214 | 246 | 296 |
| Total payments capacity | 860 | 909 | 953 | 1,003 | 1,071 |
| Outflow of capital | 26 | 33 | 33 | 32 | 24 |
| Remittances of profits | 44 | 44 | 44 | 44 | 44 |
| Servicing of foreign investment and Stabilization Loan | 7 | 11 | 16 | 25 | 38 |
| Sub-total | 783 | 821 | 860 | 902 | 965 |
| Donations from abroad | 38 | 38 | 38 | 38 | 38 |
| Total capacity to import | 821 | 859 | 898 | 940 | 1,003 |
| Import requirements | 771 | 809 | 848 | 890 | 953 |

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[1] Exclusive of reinvested earnings.

## *Employment Effects*

By 1967, a little less than 11,620 thousand jobs will have been created. Approximately 94.5 per cent of the total number of persons offering their services for wages or for profit by 1967 will be employed, fully or partially. After making adjustments to the equivalent number of persons fully employed (that is, working 40 or more hours per week) this percentage may be reduced to about 88 per cent. The industrial distribution of the employed labor force by 1967 reflects significant structural changes in the pattern of production:

| Industry | Per Cent Distribution of Employed Labor Force | |
|---|---|---|
| | 1959 | 1967 |
| Agriculture | 61.7 | 48.5 |
| Industry (Mining and manufacturing) | 12.0 | 20.2 |
| Construction | 3.1 | 3.0 |
| Facilities, trade, and services | 23.2 | 28.3 |
| Total number of employed, in thousands | 8,959 | 11,617 |

While employment in agriculture will expand in absolute terms, the rate of growth will be considerably limited. The largest expansion in the number of jobs will be provided by the manufacturing and services sectors.

# Chapter V

## MONETARY AND FINANCIAL PROGRAM

The over-all economic program calls for an increase in the rate of investments of from 12.8 per cent of gross domestic product during the period from 1956 to 1960 to 16.1 per cent from Fiscal Years 1963 to 1967.

In absolute magnitudes the stock of new capital in the country over the five-year period will need to increase by ₱12,700 million (at present prices), roughly broken down by categories as follows:

| | |
|---|---|
| Land and resources improvements (including mining and forestry) | ₱4,671.9 |
| Plant and other business construction | 607.8 |
| Machinery and equipment | 3,430.5 |
| Residential construction | 750.0 |
| Government public works (including power development) | 2,628.8 |
| Increment in stocks | 604.0 |
| Total | ₱12,693.0 |

To finance these investments, the current domestic savings rate must be raised to 14.8 percent of gross national income over the period Fiscal Years 1963 to 1967. Domestic savings must finance ₱11,500 million at present prices or 90.6 per cent of the total investment requirements. The balance will be financed by external sources. Reparations will provide U. S. $375 million over Fiscal Years 1963–1967. Reinvestment of foreign earnings plus new inflow of private foreign investments may be anticipated in an amount of U. S. $370 million. Finally foreign loans from the World Bank, the Credit Anstalt and Suppliers' Credits for equipment and under U. S. Public Law 480 will be sought in the amount of U. S. $470 million.

In order to mobilize these resources and facilities their application to projects of high priority in the program, the country's monetary and financial institutions must undergo some reform in policies and structure to suit the task. Such reorganization shall have three (3) principal objectives:

1. To prevent bottlenecks from developing in production and capital formation which may arise particularly from an inadequacy of financial resources or from the inaccessibility of these resources to worthy economic projects.

2. To develop new institutions, instruments and procedures to provide inducements for increased savings out of current income and for the channeling of these savings to economic projects of high priority.
3. To provide channels to facilitate the entry of foreign capital under conditions which will give adequate security of principal and attractive incomes to such capital.

### *Mobilizing Domestic Savings*

Over the five years from Fiscal Years 1963 to 1967, a total of ₱11,500 million must be mobilized in the form of domestic savings out of total gross national income of ₱78,200 million. The principal intermediaries for the mobilization of such savings will be:

1. Investment banks and other institutions involved in channeling personal savings into equity investments.
2. Insurance companies that channel premium collections into corporate stock purchases and long-term loans for plant building and home construction.
3. Savings banks and other mortgage loan institutions.
4. The Government Service Insurance System, the Social Security System and the Development Bank of the Philippines.
5. Commercial banks and other short-term loan institutions that finance inventory.

The pattern of capital formation shows a predominance of fixed and long-term assets which must be financed with long-term savings of the nation in the form of stock purchases, long-term mortgage loans, long-term government bonds and government savings from current operations.

The priorities of the financial program in respect of these institutions will be:

1. To provide reasonable government assistance to these institutions in their efforts to introduce plans which encourage systematic savings from the public in general out of current incomes.
2. To enlist the full support of these institutions for the purpose of achieving common priorities in Loan and Investment Programs and to provide assistance and inducements in order to facilitate the channeling of investible funds into projects considered most important to this integrated Economic Development program.

### *Establishment of Private Development Bank*

It is proposed to establish a private Development Bank with total initial resources of ₱60,000,000.00. The capital of this private Development Bank will be raised as follows:

| | | |
|---|---|---|
| Domestic subscriptions | | ₱15,000,000.00 |
| of which, private | ₱5,000,000.00 | |
| government | 10,000,000.00 | |
| Subscriptions to be sought from international institutions | | 45,000,000.00 |
| Total Resources | | ₱60,000,000.00 |

The government's participation will be in the form of long-term loans for fifty years, at a nominal interest rate and with the most junior claim on the assets of the bank in the event of liquidation. This effectively leaves the control of the Development Bank in the hands of the private subscribers. With the offer of this highly preferential government loan in the basis of ₱2.00 for every ₱1.00 raised by private subecribers, it is anticipated that the ₱5,000,000.00 of the private subscriptions can be readily raised from insurance companies, private financial companies, and individuals. International financial institutions such as the World Bank have, in the past, given loans for the organization of private Development Banks of this type. It is expected that these institutions will be willing to provide loans guaranteed by the national government to the extent of three (3) times the domestic capital raised.

The private Development Bank will be privately managed and will perform essential investment banking functions to provide the initial risk capital and long-term loans for large-scale investment projects in the integrated Economic Development Program. It will be of tremendous assistance to promoters of industrial, mining and agricultural ventures in the country.

### *Inducements for Personal Savings*

All the powers at present available to induce savings out of current income shall be put to effective use under this program. The Central Bank of the Philippines shall be requested to review the feasibility of raising the interest rates paid by Commercial and Savings Banks on savings and time deposits, push with greater vigor the establishment of local community cooperative banks and savings and loan associations encourage these institutions to offer more attractive inducements for systematic savings plans.

Among the objectives of the program are the expansion of the facilities and resources of existing financial intermediaries, and to establish new ones designed to induce habits of thrift in and mobilize the savings of the rural communities.

The consolidated net additional resources of the major financial intermediaries are expected to grow annually during the five-year period in the following amounts.

FINANCIAL INTERMEDIARIES IN THE PHILIPPINES

*Projected Annual Increments in Resources*

*Fiscal Year 1963–1967*

(In Million Pesos)

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|
| Commercial Banks, Rural Banks and National Cooperative Bank[a] | 171 | 194 | 221 | 251 | 284 |
| Insurance Companies | 402 | 440 | 479 | 519 | 562 |
| Private | 183 | 200 | 218 | 238 | 260 |
| GSIS | 170 | 190 | 210 | 230 | 250 |
| SSS[b] | 49 | 50 | 51 | 51 | 52 |
| Development Bank of the Philippines | 25 | 27 | 29 | 31 | 32 |
| DBP Proper | 22 | 23 | 25 | 27 | 28 |
| Postal Savings deposits | 3 | 4 | 4 | 4 | 4 |
| Total Annual Increments | 598 | 661 | 729 | 801 | 878 |

These institutions will thus mobilize a total of ₱3,667 million in domestic savings during the period, or an average of ₱733 million per year.

The government will continue to study legislation to remove double taxation of income from corporate investments and to suspend the capital gains tax. At the same time, it may be feasible to have as allowable deductions from the income tax base premium payments on insurance as well as recurring payments for systematic savings and investment plans.

### *More Judicious Allocation of the Nation's Investible Funds*

Running parallel to the campaign for increasing the current rate of domestic savings in the above-standard regions, their financial organization must be reorganized in order to insure the optimum use of savings for productive investments. The first step proposed to be undertaken is to budget more rigorously the investible funds placed in the control of government financial institutions. To this end, two steps are envisioned:

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[a] Net of Central Bank Credit.
[b] Projections of the Social Security System.

First, to remove from the Social Security System and GSIS all lending functions and to channel their investible funds instead to the Development Bank of the Philippines.

Second, to bring the policies of the Development Bank of the Philippines, the Philippine National Bank, the National Cooperative Bank and the ACCFA into line with the overall targets and priorities established by this Economic Development Program. To accomplish this, it is proposed to have an inter-corporate Loans and Investments Council to establish policies for these institutions with a view to their maximum coordination. The Council shall be under the chairmanship of the Central Bank and the President of the PNB, the Chairman of the DBP and the Secretary of Commerce and Industry shall be members. The regulatory powers of the Central Bank of the Philippines over the commercial banking system of the Philippines and over the savings and mortgage banks shall continue to be used as far as feasible to guide the allocation of the loanable funds of these institutions into the most economically productive lines.

The facilities of the Office of the Insurance Commissioner also shall be enlisted for the purpose of seeking maximum cooperation from the insurance companies in the achievement of the objectives of this economic program.

### *Facilitating the Inflow of Foreign Capital*

In anticipation of foreign investments and loans from abroad, the government proposes to provide facilities for private business that will enable them to meet the requirements of foreign investors and creditors in a manner that will redound to the greatest advantage of the country.

It is intended to enlist the assistance of the Department of Foreign Affairs and its foreign missions in order to provide Philippine investors with the maximum information on policies, statutes, rules and regulations covering loan facilities of international institutions and foreign countries' lending institutions. The Philippines' foreign missions abroad shall be organized more satisfactorily to assist businessmen to negotiate with foreign creditors and investors in order to secure for them and therefore, for the country, the best terms feasible. (Refer to Chapter X)

On the domestic side, it is proposed to establish a government office that will assist businessmen in preparing project proposals to meet the requirements of foreign creditors and investors. (Refer to Chapter IX)

Likewise, the necessary government guarantees usually required by foreign lending institutions shall be established through government financial institutions at costs which will not necessarily burden investment projects with too heavy a financing charge.

Where it will be considered advantageous, the Department of Foreign Affairs will initiate negotiations for investment and tax treaties with capital exporting countries for the purpose of preventing double taxation of profits and interest remittances.

Immediate steps shall be taken to establish the terms and procedures for the U. S. $250 million from Japanese banks as provided for in the Reparations Agreement with Japan.

## Chapter VI

### *Fiscal Policy and the Government Sector*

The fiscal program of the National Government is designed to provide the essential government services needed by the expanding population and to construct and maintain basic facilities which serve as foundation for economic activities of the foreign sector. The program has been drawn to improve the re-distribution feature of the tax machinery with purposive regional development to ensure the most widespread sharing on the fruits of progress by the population. The financial resources to carry out the program has been constrained to the feasible non-inflationary sources of finance.

The annual current operating expenditures of the National Government has been raised from around ₱900 million FY 1960–FY 1961 to an average ₱1,200 million during the program period FY 1963–FY 1967. This level of current expenditures is necessary to supply the public service needed by the growing population, services such as the provision of education facilities to the 600 thousand new students annually. Welfare services such as public health and medical care shall also have to be expanded to meet the needs of the growing population which increasingly concentrate in urban areas.

This level of current expenditures shall be met by current receipts of the Government from taxes and properties which, under the present rates and efficiency of the tax machinery, are expected to aggregate ₱6 billion during the five-year program period.

NATIONAL GOVERNMENT: *Fiscal Resources and Expenditures Fiscal Year 1963–67*[a]

| Item | 1963 | 1964 | 1965 | 1966 | 1967 | Sum |
|---|---|---|---|---|---|---|
| 1. Outlays | 1,629 | 1,723 | 1,882 | 2,024 | 2,157 | 9,415 |
| 2. Current Outlays | 1,077 | 1,138 | 1,197 | 1,268 | 1,329 | 6,009 |
| 3. Debt Service | 98 | 103 | 118 | 131 | 146 | 596 |
| 4. Capital Outlays | 454 | 482 | 567 | 625 | 682 | 2,810 |
| 5. Original Budget | 220 | 234 | 275 | 303 | 331 | 1,363 |
| 6. Additional | 234 | 248 | 292 | 322 | 351 | 1,447 |
| 7. Resources | 1,629 | 1,723 | 1,882 | 2,024 | 2,157 | 9,415 |
| 8. Reparations and Foreign Loan | 85 | 87 | 63 | 50 | 50 | 335 |
| 9. Bond | 75 | 64 | 60 | 50 | 30 | 279 |
| 10. Current Receipts | 1,469 | 1,572 | 1,759 | 1,924 | 2,077 | 8,801 |
| 11. Present Rates | 1,055 | 1,124 | 1,200 | 1,282 | 1,385 | 6,046 |
| 12. Direct Taxes | 268 | 296 | 327 | 360 | 398 | 1,649 |
| 13. Indirect Taxes | 675 | 710 | 747 | 788 | 844 | 3,764 |
| 14. Property Income | 112 | 118 | 126 | 134 | 143 | 633 |
| 15. Others | 414 | 448 | 559 | 642 | 692 | 2,755 |

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[a] Items (1) to (5) (8) and (9) were obtained from the Budget Commission estimates by providing for constant 1960 prices. Item (6) was derived from the government gross investment required to support the Program. Items (12) to (14) were independently estimated and Item (15) constituted the residual item.

The balance between current expenditures and current receipts, at present tax rates and present efficiency of the tax machinery, allows the Government to put more vigor to its investment program. The program sets investment targets averaging ₱560 million annually during the five-year program period, a substantial increase over the ₱220 million level of Fiscal Year 1960 and Fiscal Year 1961. Thus, the proportion of investment outlays shall increase from 18.7 per cent of Fiscal Year 1960 and Fiscal Year 1961 total government outlays to 31.6 per cent by Fiscal Year 1963 if the targets shall be achieved.

The target for gross public investment has been set at ₱2,810 million for the five-year program period Fiscal Year 1963–Fiscal Year 1967. The investment program includes principally ₱1.3 billion for roads, highways, irrigation and water supply and ₱1.1 billion for power development, extension of railroad lines and expansion of telecommunication facilities.

One-half of the investment program is expected to be financed by saving from current operations, depreciation and the additional government revenue engendered by the upward revision of the exchange rate. Around ₱600 million has been scheduled by the Budget Commission to originate from reparations, foreign loans, and domestic bond issues. The remaining ₱1,170 million shall have to be raised by improvement in direct tax revenues, through either or both an improvement in efficiency or substitution of administratively more efficient methods of taxation, and other sources such as more official foreign loans.

NATIONAL GOVERNMENT: *Capital Budget, Fiscal Year 1963–67*

(Millions of pesos at 1960 prices)

| Item | Fiscal Years 1963–67 |
|---|---|
| Gross Public Investment | 2,810 |
| Financing: | |
| Savings from current revenues at present rates | 40 |
| Additional revenue from change in exchange rate | 500 |
| Depreciation | 500 |
| Reparations, foreign loans and bond issues | 600 |
| Additional direct tax revenue | 500 |
| Other sources | 670 |

Vigorous attempts to increase the efficiency of tax collection shall be undertaken along two fronts: The President will take direct personal and official interest in the systematic improvement of the Department of Finance which has the main responsibility of tax administration. On the other hand, the government shall continue to pursue its campaign for tax consciousness in an atmosphere of greater dignity in the public service.

The government shall also pursue more intensive research work on the tax structure from the point of view of economic and administrative efficiency. These shall serve as bases in proposing to Congress, when necessary, measures that shall increase the capacity of the Government in performing its role in the economic development program.

## Chapter VII

## THE FOREIGN EXCHANGE PROGRAM

The integrated economic program is designed to raise adequate foreign exchange resources (*a*) to meet the import requirements of the nation for the next 6 years, (*b*) to honor all the foreign exchange liabilities of the country including investment remittances, interest and amortization on foreign loans and repatriation of capital, and (*c*) to generate an increase in the international reserves that will provide a fund adequate to stabilize the international value of the peso under the system of de-control.

The integrated economic program calls for an aggregate importation of consumer and capital goods and various services amounting to a total of 4,271 million U.S. dollars during the five-year period from fiscal year 1963–1967 compared with the corresponding figure of 3,359 million U. S. dollars from fiscal years 1956–1960.

Together with foreign exchange disbursements for invisible items, Philippine government expenditures abroad, investment remittances to service existing foreign exchange liabilities and amortization of existing foreign loans, the total foreign exchange requirements of the program come to an average of 930 million U. S. dollars annually from the period (fiscal years) 1963 to 1967, or 4,640 million U. S. dollars for the entire period.

The anticipated regular foreign exchange receipts of the country, exclusive of special loans and grants-in-aid to be negotiated, come to an average of 740 million U. S. dollars annually or a total of 3,960 million U. S. dollars for the 5-year period.

The balance of 190 million U. S. dollars per annum will be sought from international financial institutions, the U. S. government, Japan and possibly Germany. It is anticipated that it will be possible to raise a total of 950 million U. S. dollars during the 5-year period from these various sources. The excess of loans and external assistance to be negotiated over the actual annual requirements is intended to be added to the foreign exchange reserves of the country in order to provide a stabilization fund to support the exchange rate under the decontrol program.

## *The Immediate Foreign Exchange Problem*

The Philippines faces an immediate balance of payments problem the magnitudes of which are set forth in the following table:

*Projected Foreign Exchange Position*
*Calendar Year 1962*
(Million U.S. Dollars)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Whole Year |
|---|---|---|---|---|---|
| Beginning Reserves | $103.2 | 13.5 | 27.1 | 15.0 | 103.2 |
| Expected Receipts | 172.4 | 209.3 | 191.5 | 179.1 | 752.3 |
| Expected Disbursements | 262.1 | 195.7 | 203.6 | 210.5 | 871.9 |
| Surplus (Deficits) | (89.7) | 13.6 | (12.1) | (31.4) | (119.6) |
| Ending Reserves | 13.5 | 27.1 | 15.0 | (16.4) | (16.4) |

If no new sources of financing are arranged, by the end of March this year, the country's international reserves will be negative.

It is a matter of urgency to negotiate foreign loans in order to meet the immediate needs and to provide a stabilization fund for the contemplated decontrol program.

## *The Decontrol Program*

The decontrol program in essence is as follows:

A. Exchange Rate:

The par value for the Philippine peso, agreed with the Fund and stated in Article 11 of the Central Bank Charter, shall apply only to 20% of the exchange proceeds from exports. All other exchange transactions take place in a free exchange market with freely fluctuating rate.

B. Administration of Exchange Program:

Exchange will be bought and sold only at authorized institutions (banks and exchange dealers) independently of the Central Bank but the Central Bank intervenes in the free market to avoid excessive variations arising from temporary factors. The Committee of Monetary Stabilization Fund will be established for this function.

C. Imports and Imports Payments:

Imports will not be subject to license but will be subject to an advance deposit in the Central Bank. These advance deposits vary according to the category and essentiality of the merchandise.

D. Payments for Invisibles:

Authorized dealers may sell exchange to cover payments for all invisibles.

E. Exports and Export Proceeds:

(1) All goods may, in principle, be exported freely; however, some items are prohibited (strategic goods to control export to communist countries, goods in short supply in the domestic market).

Or, are subject to quota, and in order to enforce these requirements and to ensure the repatriation of export proceeds, all exports must be registered with the Export Department of the Central Bank (or some agencies of the Government). Barter exports and exports under processing contracts require specific licenses from the Producers Incentives Board.

(2) The exporters are, however, required to sell to the Central Bank 20 per cent of their total proceeds at par value. Eighty per cent of such foreign exchange will be sold at the free market through an authorized dealer.

(3) The proceeds of exports must be received in currencies prescribed to form part of the international reserve (U.S. dollars, etc.). Within a period of 90 days from date of shipment or within such period as may in special cases be established, exporters must repatriate in instruments of international exchange the total value of their exports and must liquidate this value within 10 days from its repatriation through an authorized agent. Payments for exports on a cash, collection or consignment basis must be arranged through an authorized agent, which must specifically contract with the exporter to buy the exchange proceeds. The bank issues a certificate that payment has been made or arranged in an approved manner, to enable clearance of the exports through customs.

F. Proceeds from Invisibles:

Exchange derived from invisibles must be sold at the free market rate within ten days of receipt.

G. Capital:

Inflow or outflow of foreign investment capital repatriation and investment remittances of profits wil ltake place at the free market rate.

## *The Stabilization Fund*

With a stabilization fund of 300 million U.S. dollars to be used by the Central Bank to support and stabilize the free exchange rate at the desired level, the decontrol program as described may be implemented with confidence. In order to achieve this, special foreign exchange financing needs to be negotiated that will generate a net inflow of foreign exchange in the following amounts during the current calendar year:

| | |
|---|---|
| First quarter, 1962 | U.S. $254 [5] million dollars |
| Second quarter | 40 |
| Third quarter | 41 |
| Fourth quarter | 40 [6] |
| Total for 1962 | U.S. $375 |

## *Sources of Special Financing*

The special financing embodied in this program has already been secured in part by the Special Presidential Mission to the United States. To date, we have secured the following firm commitments totalling nearly $300 million:

| | | |
|---|---|---|
| International Monetary Fund Drawing | $28.30 | M |
| Federal Reserve Loan against Gold | 23.25 | M |
| Refinancing by Private Banks | 84.80 | M |
| Stand-by Financing from Private Banks | 82.00 | M |
| Agency for International Development (AID) | 50.00 | M |
| Export-Import Bank | 30.00 | M |
| TOTAL | $298.35 | |

Moreover, further drawings, amounting to about $37 million or up to $55 million are expected from the IMF after the Article XIV consultations which will be held in Manila starting next week (January 25, 1962). The State Department has also committed itself to provide, thru the U.S. Treasury, assistance from the Stabilization Fund in association with these IMF arrangements, without mentioning any definite figure. There is likewise forthcoming $73 million as additional war damage payments.

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[5] Excludes extension of short term loan of $55.0 millions; $30 million payable in second and $25 million payable in the third quarter.

[6] Excludes $73.0 million of U.S. War Damage payments which may be received this year.

In addition, we are negotiating for commodity accommodations under U.S. Public Law 480 and/or commodity loans from the Export-Import Bank of Washington in the following amounts:

| | |
|---|---|
| Cotton | 47.0 million U.S. dollars |
| Wheat | 22.5 million U.S. dollars |
| Non-fat dry milk | 7.5 million U.S. dollars |
| Evaporated milk | 12.0 million U.S. dollars |
| Others | 4.7 million U.S. dollars |
| TOTAL | 93.7 million U.S. dollars |

Finally, we shall open negotiations for project loans from foreign financing institutions such as the *Creditanstalt* of West Germany, the Export-Import Bank of Japan, and Japanese Commercial in amounts still to be determined.

Taken together, all these sources of financing should generate over $400 million.

### *The Five-Year Foreign Exchange Program*

Exports of goods and services are expected to yield 3,700 million U.S. dollars in the five years FY 1963–67, predicated on evidenced capacity of the economy to produce coupled with prospective progress in the world economy and on the assumption that U.S. quota for Philippine sugar in 1960 shall be maintained at subsidy prices. These receipts, however, can finance only 86 per cent of the importation required for the attainment of the goals in domestic production. Current trade accounts are thus anticipated to show a cumulative U.S. dollar deficit of 580 million over the five years Fiscal Year 1963 to Fiscal Year 1967.

In addition to this current deficit, the economy shall also have to service financial obligations in the aggregate amount of 150 million U.S. dollars over the five-year period. If the economy shall also build up international reserves to be capable of maintaining stable exchange rate independently of borrowed stabilization funds, foreign investments amounting to 1,100 million U.S. dollars over the five-year period shall be required. Alternatively, export receipts shall be raised further by concerted export promotion effort, especially in the field of light manufactures.

*Foreign Exchange Budget, Calendar Year 1962*

($ Million)

| Item | Whole Year | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|---|
| **Exports** | 696.5 | 158.4 | 195.4 | 177.5 | 165.2 |
| **Imports** | 753.0 | 175.6 | 184.9 | 192.8 | 199.7 |
| Balance of Current Trade Accounts | (56.5) | (17.2) | 10.5 | (15.3) | (34.5) |
| Donations | 55.8 | 14.0 | 13.9 | 14.0 | 13.9 |
| Current Accounts | (0.7) | (3.2) | 24.4 | (1.3) | (20.6) |
| Short-term Capital Movements | (55.0) | (55.0) | — | — | — |
| Long-term Capital Movements | (63.9) | (31.5) | (10.8) | (10.8) | (10.8) |
| Surplus (Deficit) | (119.6) | (89.7) | 13.6 | (12.1) | (31.4) |
| **Financing** | 374.3 | 254.0 | 40.0 | 40.8 | 39.5 |
| Foreign Investment—Public Law 480 | 93.7 | 23.0 | 24.0 | 23.2 | 23.5 |
| Project Loans | 65.6 | 16.0 | 16.0 | 17.6 | 16.0 |
| Stabilization Loan | 215.0 | 215.0 | — | — | — |
| **Surplus** | 255.7 | 164.3 | 54.6 | 28.7 | 8.1 |
| **International Reserves, cumulative (end of period)—Reserve of $103.2 at start** | — | 267.5 | 322.1 | 350.8 | 358.9 |

## Chapter VIII

### FOREIGN EXCHANGE RECEIPTS: PROSPECTS

The economic development program depends to a significant extent on the availability of foreign exchange with which to pay for the imported goods required for consumption, production and investments. For this purpose, an estimate of the prospective foreign exchange earnings is attempted to yield the orders of magnitude of the constraint that this resource imposes on the program and identify the areas of domestic policy actions which would maximize the volume of this resource.

The estimation procedure consists of four stages: Firstly, aggregate export receipts are projected over the program period on the basis of 1947–1960 trend. Secondly, the feasibility of attaining these trend estimates is examined with reference to past performances of the foreign sector of the economy, and past developments in prices of the country's principal export products. Thirdly, the estimates are analyzed in the light of prospective developments in the world market and in the domestic economy. Fourthly, non-export receipt items are projected on the basis of current developments. These four stages provide an estimate of the volume of foreign exchange earnings that shall be available for importation during the program period. Finally, the areas of domestic policy actions which would likely support and enhance the foreign earnings are identified.

### I

The annual value of aggregate export receipts fluctuated over a wide range of —11.0 per cent and +29.5 per cent during the period 1949–60. The wide variations preclude fitting a trend line on the annual data and suggested smoothening by averaging. Thus, successive three-year annual averages were computed starting with 1947–49 and ending with 1958–60. The data were in this process reduced to five three-year average figures, three years apart. The range of annual variation on the positive side was defined by changes during the periods 1950–51 when the effects of the Korean War were most pronounced. To improve on the variation in the data, the price effect of the Korean War was removed from the 1951 figure. Finally, the data for 1959 and 1960 were adjusted to include barter exports for consistency and in view of the reported full decontrol during the program period.

The modified three-year average annual receipts were plotted on a graph and the scatter diagram showed a remarkable straight line trend. A straight line trend was thus fitted to the data by the method of least squares. The trend values corresponded closely with the actual data, deviating within plus and minus 1.5 per cent of the actual data. The trend line was then projected through 1966 and the estimated export receipts representing an annual increment of $18.28 million was obtained:

| | 1962 | 1963 | 1964 | 1965 | 1966 |
|---|---|---|---|---|---|
| Estimated Export Receipts, $ Million | 543.0 | 561.2 | 579.5 | 597.8 | 616.1 |

## II

The feasibility of attaining these estimated foreign exchange receipts from exports was tested on the basis of historical data on volumes and prices of the export products. For this purpose, the annual volumes and annual average prices of fifteen principal export products, which accounted for 89 per cent of the value of total export shipments in 1960, were gathered. The maximum annual volumes exported were determined from the data and these were valued by using three—lowest, average, and highest—prices registered during the period 1949–60. The corresponding total values for the fifteen principal commodities were then used as bases for estimating the value of all export products by using the 1960 proportions.

The data showed that if the economy can export the maximum volumes registered in the past 12 years and sell these products at the average price that prevailed during the period, foreign exchange receipts would aggregate $610 million a year—within one per cent of the 1966 estimate based on the straight line projection. Receipts from exports of the same volume would reach $740 million if the premium prices during the past 12 years shall prevail in the world markets. On the other hand, the receipts would fall to $500 million if the lowest prices shall prevail.

Significantly, the maximum shipments for nine of the fifteen principal export products which accounted for 58 per cent of their total 1960 value occurred in the past three years (1958–60). In the case of copra, coconut oil, copra meal and iron ore, maximum shipments were registered in 1956. The recorded volume of copra exports dropped from 966 to 681 metric tons between 1956 and 1959 and recovered in 1960 to 804 metric tons. The volume of coconut oil exports, similarly, dropped from 109 to 65 metric tons between 1956 and 1959 but continued to decline in 1960 to 60 metric tons. In the case of iron ore, recorded shipments also declined, albeit at a smaller rate, continuously between 1956 and 1960.

The largest shipment of abaca, 128,000 metric tons, was made in 1951, at the height of the Korean War. Since then, shipment volume fluctuated at levels such as 122,000 metric tons in 1956 and 101,000 metric tons in 1960. Finally, the largest volume of canned pineapple products of 77,500 metric tons was shipped in 1952, dropping to 21,800 metric tons in 1958 and then levelled off at around 44,500 metric tons in 1959 and 1960.

Prices of nine of the fifteen principal export products during the last three years 1958–60 were higher than the corresponding 1949–60 average prices. The value of these nine products accounted for 70 per cent of the total value of the fifteen principal exports in 1960. Prices of abaca and copra meal during 1959 and 1960 were similarly higher than the corresponding 12-year average prices. In the case of logs, prices fluctuated such that prices in 1951, 1954, 1956 and 1960 were higher than the 12-year average price. Copper prices during 1957–60 were below the 12-year average price. However, the 1959 price was within 2 per cent of the average price.

## III

The imminent revision in the exchange rate against the domestic currency unit is expected to act as a stimulus for expanding export receipts. The higher exchange rate shall improve the competitive position in the world market of some of the country's manufactured export products, e.g., cement, plywood, and processed food items. The upward revision of the exchange rate shall also alter the relative profits obtainable from production for the domestic and world markets in favor of the latter.

Prospects in the world market are determined by diverse factors. The most significant factor with regards to sugar exports consists of the continuance of the expanded quota in the U.S. market and of the higher prices obtainable from the U.S. market vis-a-vis the other world markets. The upward revision of the exchange rate may operate to make Philippine sugar competitive in the other world markets, notably in Japan.

Demand for coconut products shall depend on conflicting trends in the world market. On the one hand, the economic progress of the Western Europe, especially the Common Market countries which absorb the largest bulk of this export product, is expected to expand demand for coconut products to be used as raw material for margarine. On the other hand, the rising level of incomes in these countries shifts the demand for soap, which uses coconut products as raw material, to synthetic detergents. Moreover, the common market may operate to weaken the competitive position of Philippine products. In the United States, purchases of coconut products from the Philippines had not expanded despite the increase in income and population due to the shift in consumption from soap to synthetic detergents and the displacement of hard oils by hydrogenated oils between 1949 and 1960. Copra exports to the U.S. dropped from 35–450 thousand metric tons in 1949–51 to 300–340 thousand metric tons in 1952–59 and then to 280 thousand metric tons in 1960. However, use of coconut oil in the bakery and confectionery trades as well as industrial and technical production activities had expanded to cushion the effect of the two contractionary factors.

Prospects for logs and lumber exports depend on developments in Japan and the United States which constitute the major markets. Continued growth in income and populations serve as underlying factors behind the demand for logs and lumber in the long run. Prospects for abaca, on the other hand, do not appear bright in view of the increasing inroads of substitute products in the world market.

## IV

Receipts from non-merchandise exports, not including donations, followed a downtrend during the last nine years from around $180 million in 1952–53 to $155 million during 1959–60. The downtrend was essentially due to the steady decline in U.S. government expenditures from $134–139 million in 1952–53 to $82–89 million in 1959–60. Further decline in U.S. government expenditures may occur as a result of the imminent full decontrol which would raise the exchange rate. Receipts from gold production, on the other hand, rose from around $6 million in 1955–57 to $9–11 million in 1958–59 to reach the high $12 million by 1960. Other foreign exchange earnings also increased from $34–40 million during 1951–55 to $54–61 million in 1956–60.

Receipts of donations from abroad fluctuated between $6 and $8.5 million during the period 1955–60, averaging $8 million in the last 3 years.

On the payments side, investment remittances of earnings and assets rose from around $20 million in 1955–57 to $28 million in 1958–59 and reached $44 million in 1960. Other payments for non-merchandise imports fluctuated between $46 and $62 million between 1951 and 1960, the upper limit having been registered in the last year. These payments shall be affected by the prospective upward revision in the exchange rate in a way converse to the effect on U.S. government expenditures.

To get the order of magnitude of the foreign exchange resources that shall be available during the program period, estimates were made on the basis of the following assumptions:

(1) U.S. government expenditures shall average $60 million a year during the program period, about a third lower than in 1960.

(2) Receipts from gold output shall continue at the 1960 level of $12 million a year.

(3) Receipts from other earnings shall increase in the same absolute magnitude as the rise between 1951–55 and 1956–59 to $78 million a year.

(4) Receipts in the form of donations from abroad shall continue at the average 1958–60 level of $8 million.

(5) Investment remittances and other non-import payments shall continue at the 1960 levels of $44 million and $74 million, respectively.

(6) Payments for Special Financing Items, such as deferred payments for capital goods, shall follow the schedule as estimated from records of the Central Bank.

The estimates may finally be extended to indicate the capacity of the economy to absorb real imports by providing for the resources that may be made available in kind. In this connection, it is estimated that annual reparations and ICA grants in kind shall be in the order of $25 million and $5 million, respectively. In addition, it is assumed that commodities shall continue to be provided under the U. S. Public Law 480 at the 1961 level of $22 million.

*Estimated Capacity to Import, CY 1962–66*

(Million U.S. Dollars)

| Item | 1962 | 1963 | 1964 | 1965 | 1966 |
|---|---|---|---|---|---|
| 1. Merchandise Export Receipts | 543 | 561 | 580 | 598 | 616 |
| 2. U. S. Government Expenditures | 60 | 60 | 60 | 60 | 60 |
| 3. Gold | 12 | 12 | 12 | 12 | 12 |
| 4. Other Earnings | 78 | 78 | 78 | 78 | 78 |
| 5. Foreign Exchange Earnings from Current Output | 693 | 711 | 730 | 748 | 766 |
| 6. Donations | 8 | 8 | 8 | 8 | 8 |
| 7. Total Foreign Exchange Receipts | 701 | 719 | 738 | 756 | 774 |
| 8. Non-Merchandise Import Payments— | | | | | |
| 8.1 Investment Remittances | 44 | 44 | 44 | 44 | 44 |
| 8.2 Special Financing Items | 26 | 33 | 33 | 32 | 24 |
| 8.3 Others | 74 | 74 | 74 | 74 | 74 |
| Total | 144 | 151 | 151 | 150 | 142 |
| 9. Capacity to Pay for Imports | 557 | 568 | 587 | 606 | 632 |
| 10. Grants in Kind | | | | | |
| 10.1 Reparations | 25 | 25 | 25 | 25 | 25 |
| 10.2 Public Law 480 | 22 | 22 | 22 | 22 | 22 |
| 10.3 AID Aid | 5 | 5 | 5 | 5 | 5 |
| 11. Capacity to Import | 609 | 620 | 639 | 658 | 684 |

The estimates may be converted into a Fiscal Year Basis by assuming that the distribution of export receipts shall follow the average pattern the last three years 1958–60, i.e., 47.7 per cent and 52.3 per cent of total calendar year receipts in the first semester and second semester, respectively. In the case of the other items in the estimate, it is assumed that these are distributed equally between the first and second halves of the calendar years.

*Estimated Capacity to Import, Fiscal Year 1962–63 to Fiscal Year 1966–67*

(Million U. S. Dollars)

| Item | 1962–1963 | 1963–1964 | 1964–1965 | 1965–1966 | 1966–1967 |
|---|---|---|---|---|---|
| 1. Merchandise Export Receipts | 552 | 571 | 589 | 607 | 625 |
| 2. U. S. Gov't Expenditures | 60 | 60 | 60 | 60 | 60 |
| 3. Gold | 12 | 12 | 12 | 12 | 12 |
| 4. Other Earnings | 78 | 78 | 78 | 78 | 78 |
| 5. Foreign Exchange Earnings from Current Output | 702 | 721 | 739 | 757 | 775 |
| 6. Donations | 8 | 8 | 8 | 8 | 8 |
| 7. Total Foreign Exchange Receipts | 710 | 729 | 747 | 765 | 783 |
| 8. Non-Merchandise Import Payments | | | | | |
| 8.1 Investment Remittances | 44 | 44 | 44 | 44 | 44 |
| 8.2 Special Financing Items | 26 | 33 | 33 | 32 | 24 |
| 8.3 Others | 74 | 74 | 74 | 74 | 74 |
| Total | 144 | 151 | 151 | 150 | 142 |
| 9. Capacity to Pay for Imports | 566 | 578 | 596 | 615 | 641 |
| 10. Grants in Kind | | | | | |
| 10.1 Reparations | 25 | 25 | 25 | 25 | 25 |
| 10.2 Public Law 480 | 22 | 22 | 22 | 22 | 22 |
| 10.3 AID Aid | 5 | 5 | 5 | 5 | 5 |
| Total | 52 | 52 | 52 | 52 | 52 |
| 11. Capacity to Import | 618 | 630 | 648 | 667 | 693 |

## Chapter IX

## COMMERCIAL AND INDUSTRIAL POLICY

The achievement of the investment and foreign trade targets of this integrated economic program depends heavily upon the ability of government to marshal the powers and organize the machinery for an integrated and coordinated commercial and industrial policy. This policy shall have for its principal objectives under the program the following:

1. To promote Philippine exports in foreign markets;
2. To insure that Philippine foreign trade shall be at the best terms that can be gotten;
3. To provide inducements and protection for domestic and Filipino industry, agriculture and commerce;
4. To assist domestic traders and producers to become more efficient and more competitive;
5. To guide domestic investments into the lines of highest priority in this integrated economic program.

### *Policy Instruments and Government Organization*

There are at present a number of instruments available to the Executive branch of the government for achieving these objectives. Among the principal ones are:

(*a*) Tariffs including the powers of the President under Section 401 of the Tariff Code to raise or reduce rates upon recommendation of the Tariff Commission and the National Economic Council;

(*b*) The power to negotiate trade agreements under Section 402 of the Tariff Code (Republic Act 1937, as amended);

(*c*) Trade promotions responsibilities of the Department of Commerce and Industry;

(*d*) The remaining tax exemption pripileges under Republic Act 901;

(*e*) Tax exemption privileges under the Basic Industris Act;

(*f*) Various import control laws.

The administration of these various instruments is distributed among a wide number of institutions and government agencies. It is proposed, first, to establish an administrative machinery for the purpose of integrating and coordinating the administration of instruments in the category of commercial and industrial policy. Ultimately, and as soon as appropriate legislation can be passed, it is intended that all these instruments should be transferred and lodged in a single department of the government, the most likely one being the Department of Commerce and Industry. The concept here is to convert the Department of Commerce and Industry into a "Board of Trade" type of agency possessing an array of instruments for providing protection, inducements and assistance to domestic industry. The proposed legislation will also embody the guidelines for the use of these instruments to the end that all commercial and industrial incentive programs of the government shall be administered under the responsibility of a single member of the cabinet.

In the meantime and until such legislation is passed, it is proposed to manage the coordination of the various instruments and programs through the formation of a cabinet committee under the Secretary of Commerce and Industry that shall carry the responsibility of consolidating the various incentive measures, including tariffs and tax exemption, and coordinating their implementation for the purpose of achieving the trade production and investment targets of this integrated program.

### *Protection to Domestic Industry*

One of the principal fears of business in the contemplated decontrol of foreign exchange is the loss of the protection which exchange controls provided to domestic industry against undue external competition and to Filipino enterprise against undue foreigner competition. Under this program, as the exchange control machinery is dismantled, the alternative means of achieving the legitimate ends of controls shall be instituted. To this end:

1. The President has exercised his power under Section 401 of the Tariff Code to increase the tariff rates on imports competing with domestic industries for the purpose of providing a reasonable margin of preference which will render domestic producers more competitive.

These tariff modifications consist of two parts, namely:

*a*. The reduction to the maximum of fifty (50%) per cent of customs duties on fifty-four (54) articles that are considered highly essential for domestic consumption and in order to lower the prices of such imported articles to the consumer; and

*b*. The increase in duties on nearly seven hundred (700) import articles that are locally produced in order to protect and encourage the growth of new domestic industries.

These tariff modifications are the results of nearly two years' study made by the Tariff Commission, the Technical Staff of the National Economic Council, and our inter-departmental technical committee composed of representatives of the National Economic Council's technical staff, those of the Tariff Commission, the Central Bank of the Philippines, the Joint Legislative Tax Commission, and a representative of the consumers. The studies were supplemented by public hearings and have been carefully examined, analyzed, and revised by the National Economic Council.

The tariff modifications took into account the effects on prices and government revenues as well as on the domestic industries.

2. Wherever necessary, the Tariff Commission should recommend the imposition of countervailing duties under Section 302 of the Tariff Code to offset benefits that may be derived by imports from foreign subsidies. To the same end, the Secretary of Finance should immediately have undertaken a study of articles of imports that are being "dumped" into the Philippine market from abroad within the context of Section 301 of Republic Act 1937.

3. The Tariff Commission should immediately investigate, in accordance with Paragraph G of Section 402 of the Tariff Code, whether and to what extent commodities imported by the Philippines from countries with which a trade agreement has been entered are being imported in such increased quantities as to cause or threaten serious injury to the domestic industry producing like or directly competitive products in order to recommend to the President, through the National Economic Council, the establishment of import quotas for the protection of the domestic industries affected.

### *The Use of Government Procurement as an Incentive Measure*

While tariffs are an effective instrument for providing protection to domestic industries against undue foreign competition, they do not provide specific protection to Filipino enterprises against competition from foreigners in the domestic market. For this purpose, in keeping with the basic philosophy of the administration that Filipinos must be assisted in their legitimate aspirations for assuming a larger role in the domestic economy, the government will have to adopt more indirect means of assisting Filipino businesses. One such is the use of government purchasing policy. The government is a large consumer of many items ranging from stationery and supplies to various agricultural commodities. It is possible, through the deliberate distribution of government purchase contracts, to provide assured, substantial and stable markets for the products of Filipino enterprises.

The faithful observance of the terms of the Flag Law provides one such inducement. This should wherever permitted by law be closely observed not only by the government itself but also by government-owned corporations.

It will be necessary, in order to render government purchases of real assistance, to improve the payment machinery of government. At present business firms find that they have to carry sales to government as accounts receivable for longer than normal. This makes the government as a market cumbersome and expensive particularly to Filipino enterprises that are just beginning and are hard-pressed for financing. The result of the slow and red tape ridden payment procedure of the government is to render this a market only for large usually foreign-owned firms looking for incremental business and willing to extend credit terms beyond normal business practice. In many instances this factor more than overcomes whatever advantage the Flag Law gives to Filipino enterprises.

### *Unintended Harmful Competition from Government*

At times the government implements policies which unwittingly results in harmful and discouraging competition to private Filipino business. It is part of this Program that all such conflicts shall be minimized and where possible removed altogether. Reference is made, for example, to the importation under reparations of articles that compete witn domestically produced commodities. The NAMARCO, enjoying the advantage of exemption from taxes and customs duties and at one time enjoying preferential exchange rate, would import food and manufactured items directly and unfairly competing with products of Philippine and Filipino enterprise. Under this integrated economic program, all such activity shall cease. The facilities of the NAMARCO shall be used to assist Filipino enterprises in overcoming with effective and professional promotion and marketing techniques the initial resistance that usually confronts locally made goods. The cost of marketing and distribution in the country and particularly that of introducing new local brands is often prohibitive for struggling new Filipino enterprises. As a result these businesses are at the mercy of those who control established channels of marketing and distribution who are able to exact terms that leave little inducements for fixed investments in process. To the extent feasible, the NAMARCO shall be transformed into an agency for stimulating investments rather than for discouraging them.

### *Filipino Brands*

It is considered beneficial to the country gradually to replace foreign brands with Philippine trademarks. The reason there has been little movement in this direction during the past years has been the fact that new manufacturers are confronted with a Filipino preference for foreign brands and the initial costs of combatting this preference and promotion a taste and a new preference for Philippine trademarks are so high that many Filipino firms do not find it feasible to make the effort. As a result foreign brands are perpetuated even for commodities of relatively simple fabrication and the dependence of the country on foreign companies protracted far beyond the time our own manufacturers have become adept at producing the commodity.

The provision of assistance to new Filipino manufacturers in introducing our own local brands shall be an explicit program of the Department of Commerce and Industry and specifically of the NAMARCO. It shall be one of the functions of NAMARCO to assist Filipino companies in educating the Filipino consumer into a preference for local brands.

### *Assistance in Improving Efficiency and Quality*

If the Filipino consumer is to be induced to preferring locally made products, the quality and costs of those products must eventually be conformed to his taste and budget. Likewise, industrial products of local firms must conform to rigid specifications and standards, particularly where these are critical for use in further industrial operations or construction. The government shall provide the necessary office staffed by competent personnel and equipped with modern testing facilities for the purpose of establishing rigorous standards for domestically produced commodities.

At the same time, a manufacturing extension division is proposed to be created with the objective of providing technical assistance to Filipino manufacturers to improve plant efficiency, undertake training programs for operating technologists and plant personnel, assist in establishing systematic quality control measures for the purpose of improving the quality and productivity of Philippine industry. Wherever necessary, the government shall make representations with foreign governments for the purpose of making available to domestic manufacturers the most competent experts and the most advanced technology.

### *Office for Industrial Promotions*

It is expected that one of the present bottlenecks which may develop in the integrated economic program will be the formulation and preparation of well-conceived projects whose economic feasibility has been proven to the satisfaction of domestic as well as foreign investors and creditors. Many of the projects contemplated in the program will make use of locally available materials. Necessarily the production processes and standard equipment and implementation for the processing of such materials will need adaptation to local conditions.

Particularly when little information is available on the properties and behavior qualities of local materials and on the cost of processing, private local capital is reluctant to undertake the expensive experimentation and pilot plant testing involved. It is proposed under this program to establish an Institute for Industrial Research to perform this type of work in order to open up the horizons for new private investments into ventures that develop and exploit indigenous resources of the country.

Together with this institute, an industrial promotions agency is proposed to be established which shall assist promoters of industrial ventures to prepare the project studies and proposals that need to be presented to local investors, local banks and financing companies to prospective foreign investors and creditors for the purpose of raising the necessary capital. If the program is to be successfully accomplished, many hundreds of projects will have to be examined, tested for economic and business feasibility and written up for presentation.

# Chapter X

## FOREIGN ECONOMIC POLICY

Under this integrated economic program, Philippine foreign economic policy shall have three principal objectives:

1. To use the instruments of international negotiations and foreign economic intelligence in order to secure for the country the maximum gains from international trade;
2. To draw to the country maximum assistance from capital exporting nations for our economic development efforts by way of capital investments, loans, aid and technical skills, and to provide assistance to Philippine nationals in securing such assistance under the most favorable terms feasible.
3. To cooperate with friendly countries in meeting mutual economic problems, exchanging information and experience in formulating and implementing programs of international economic cooperation.

### *Securing Maximum Gains from National Trade*

The integrated economic program calls for an aggregate importation of consumer and capital goods and various services amounting to a total of 4,271 million U.S. dollars (at present prices) during the period from FY 1963–67, compared with the corresponding figure of 3,359 million U.S. dollars from 1956–60.

In order to mobilize the foreign exchange required, the resources and facilities of various government offices need to be revitalized for the purpose. Reference is made particularly to the Department of Foreign Affairs and its foreign missions abroad, the Department of Commerce and Industry, the Central Bank of the Philippines, the National Economic Council, and the Tariff Commission.

It is proposed for the purpose of achieving maximum coordination among these various agencies in the definition and conduct of our foreign economic relations to create a Cabinet Committee under the Chairmanship of the Vice-President and Secretary of Foreign Affairs. This Committee shall have the responsibility of defining the foreign economic policy of the country that will be suited to the objectives of this program and to work out a program and schedule of international negotiations to achieve the objectives defined herein.

For the purpose of providing the necessary staff assistance to this Cabinet Committee on Foreign Economic Policy, it is proposed to form an Inter-agency Technical Committee composed of the technical men engaged in foreign trade and international finance research in different agencies of the government principally the Department of Foreign Affairs itself, the Central Bank of the Philippines, the National Economic Council, the Department of Commerce and Industry, and the Tariff Commission. This Technical Committee shall have the responsibility of mapping out, under the direction of the Department of Foreign Affairs, a program of international economic intelligence for the purpose of gathering, collating, tabulating and analyzing the information necessary for the formulation of Philippine positions in international negotiations. The committee also shall work out the procedures for making the results of its studies available to Philippine foreign traders and Philippine businessmen who may have need of such information for exploring foreign trade opportunities and in the conduct of their own individual negotiations with traders, bankers and financiers of other countries. It is intended that the technical group shall provide the guidelines for the work of commercial attaches and such other attaches as may be concerned with gathering economic, financial and technological information from foreign countries.

Section 402 of the Tariff Code of the Philippines (Republic Act No. 1937 as amended), empowers the President upon investigation by the Tariff Commission and the recommendation of the National Economic Council to enter into trade agreements with foreign governments or instrumentalities thereof for the purpose of expanding foreign markets for Philippine products. This power of the President under the law terminates five years from the date of enactment of Republic Act 1937 which is on June 22, 1962. It is proposed to request Congress to extend this power for another five years in order to give the President authority to use trade treaty negotiations to maximum advantage.

### *Pending International Trade Matters in the United States*

One of the principal assumptions of the program is that sugar exports will produce gross annual foreign exchange receipts in the years from 1963–1967 of U.S. $668 million. This is based on anticipation, *first*, that there will be no basic change in the U.S. sugar quota system and that the U.S. will continue to purchase sugar at the supported U.S. prices, and *second*, that for at least the period of the plan, the Cuban share in the U.S. market shall continue to be reallocated from year to year on a non-quota basis and that the Philippines will get a share equivalent to 1,450 thousand tons per year.

There is a move in the U.S. Congress in the course of re-examining the Sugar Act of 1948 to substitute global quotas for country quotas and to have the United States purchase sugar at "world free market prices" leaving the quota premium or the difference between the United States domestic price and the World Free Market Price as a revenue of the U.S. Treasury. It is important for the purpose of this program that the Philippines make strong representations in the United States that by virtue of the spirit of the trade agreement between the Philippines and the United States, the Philippines should (*a*) retain its country quota, (*b*) secure a generous share in the Cuban allotment and (*c*) that this sugar should be purchased from the U.S. at the equivalent U.S. domestic support prices since the purchase by the U.S. government of the Philippine sugar at world free market prices would in effect be equivalent to imposing a U.S. tariff on Philippine sugar in violation of the trade agreement.

### *New Trade Agreements*

In the matter of foreign trade promotions, the priorities contemplated herein are expansion of trade to the European common market countries, improvement of the terms of trade with Japan and promotion of Philippine exports particularly of light manufactured goods in neighboring Asian countries, particularly Indonesia, Hongkong, Malaya, Singapore, Pakistan, India, and also with Australia, New Zealand. It is estimated in the program that with the adjustment of the exchange rate a number of Philippine manufactured goods will be competitive in these latter countries.

It is proposed that the necessary groundwork studies be undertaken by the Technical Committee on Foreign Economic policy for submission to the Cabinet Committee for the negotiation of trade agreements with West Germany, Netherlands, France and Italy and with the aforementioned Asian countries. Likewise, the draft of the treaty of friendship, commerce, and navigation with Japan at present pending should be re-examined and if necessary a new basis recommended for re-opening negotiations.

It may be premature to consider mutual bilateral tariff concessions in such treaties but it is possible that the Philippines can use the government's willingness to relinquish tariffs on particular items of capital goods as a basis for securing from capital goods exporting countries corresponding concessions. This needs to be explored carefully. The matter will be studied by the proposed Inter-agency Technical Staff.

### *Commodity Agreements*

The bargaining position of the Philippines particularly vis-a-vis Japan and other raw material importing countries can be bolstered by closer participation of the country in commodity agreements with other exporters of raw materials. A country like Japan whose industrial structure is such that it must import bulky materials needs nearby sources for its ores and logs. The Philippines should get together with the exporters of these items in Asia in order to secure better terms of trade with Japan.

In addition, the Philippines should take a more active role in co-operating for international price stabilization with other producers of copra, hard fibers, and with members of the International Sugar Agreement.

### *Assistance to Filipino Traders*

The Filipino traders are usually at a disadvantage in their dealings with businessmen of other countries by reason of the full government support that the traders receive in their respective countries. It is time that the Philippine government formulates and implements a program for giving maximum support to its traders with the view to assisting them in securing the best terms both for their procurement of commodities from abroad and for sales of Philippine products in other countries. Reference is made particularly to economic intelligence work which reveals buyer and seller combinations and cartels in other countries that work to the disadvantage of Philippine trade. Philippine foreign missions abroad also should become centers of contact and goodwill among businessmen of other countries, which contacts and goodwill should be placed at the full disposal of Philippine business in expanding Philippine trade.

### *Drawing Maximum External Assistance*

In pursuing this integrated program of economic development, the resources that will be in short supply in the Philippines are capital, a fund of technology applicable to Philippine materials and conditions, scientific personnel and skilled operating technologists and managerial personnel. These resources are generally in abundance in the more advanced countries in the world, and can become accessible to a country that is organized to tap and utilize them.

### *Foreign Economic Policy*

The foreign missions of the Philippine government shall be used as instruments for tapping such of these resources as can be used by the Philippines to advantage.

### *Foreign Capital*

Philippine foreign missions in the principal-capital-exporting countries should actively create and maintain a favorable image of the Philippines as a safe and profitable area for investment placements. They should be fed regularly with information and promotions materials for the purpose. The materials shall be prepared by the Central Bank and distributed abroad through the Department of Foreign Affairs.

The foreign office, on the other hand, should become a center of information on sources of financing in the financial centers, principally, New York, Washington, San Francisco, London, Frankfurt, Zurich and Tokyo.

It is proposed to have the Department of Foreign Affairs start immediate studies for negotiation of Tax Treaties with capital-exporting countries to avoid double taxation of interest and dividend income from investments in the Philippines.

Studies shall be undertaken as regards the usefulness of appointing banking attachés in Washington, Frankfurt and Tokyo to assist Filipino businessmen in negotiating for foreign loans and/or equipment export credits.

### *Technology*

One of the advantages of advanced countries is the availability of surplus resources for undertaking expensive basic research. This is the type of research which may constitute one of the bottlenecks of the investment and production targets of this program. Promoters, investors, and creditors of projects like to be convinced of the technical and economic feasibility of ventures involving new materials or new processes. By availing of laboratory facilities in advanced countries doing research in minerals and forestry products, particularly, the required technical information can be gathered more readily by prospective promoters of ventures.

The forest product laboratories of the United States, the Scandinavian countries and West Germany, provide a valuable source of technical information. Likewise, chemical research laboratories in these countries and in the United Kingdom may be used to advantage by the Philippines for establishing the economic potential of Philippine natural resources. In these countries particularly, it may be desirable to appoint Science Attachés whose principal function will be to provide a regular channel for conveying and disseminating the results of technological research in these countries to Philippine technologists and businessmen.

Among the types of information that can be gathered by these Attachés and transmitted to the Philippines will be particular merchandise designs that command international markets. Although not strictly technical in nature, such designs as for example, furniture designs in Scandinavian countries will be of great value to domestic furniture makers who desired to serve international markets.

It is an economic truism that countries starting their development late have the advantage of a larger fund of technology in different parts of the world. Such technology must, however, be made accessible to the Philippines and it should be one of the programs of the Department of Foreign Affairs to assist in its gathering and dissemination.

The foreign office can be valuable also in creating a favorable atmosphere for the movement of personnel with technical background and experience that is valuable to the Philippines.

### *International Economic Cooperation*

The Philippines is at present a member of such international agencies as the United Nations, the Colombo Plan, SEATO, and the Association of Southeast Asian states. In the past, there was little consideration given to the manner in which this country could take a more active role in promoting the economic ends particularly of these organizations or to how the Philippines might derive the maximum advantage from its membership. Delegations have been sent to meetings of these organizations and their committees with only the vaguest notions of the Philippine position. If at all their terms of reference were couched in the vaguest language with little bearing on specific Philippine objectives.

Part of the task of the Inter-agency Technical Committee will be to design the specific objectives that the Philippines should seek in its participation in international bodies, to submit its findings to the Cabinet Committee on foreign economic policy which shall then provide the policy guidance for Philippine delegations to these bodies. With effective staff work and firm policy guidance, Philippine delegations can become impressive representatives of the country in international conferences. These conferences offer an opportunity for disseminating to the rest of the world the fruits of Philippine experience and also in drawing from other countries ideas and experiences that may prove valuable for the solution of our own problems. What is important is that an institutional machinery be established here that can evaluate and use the results of international contacts.

## Chapter XI

# THE AGRICULTURAL DEVELOPMENT PROGRAM

(Agriculture, Fishing, Hunting and Forestry)

Agriculture will remain an important sector on the Philippine economy. Agriculture including fishing, hunting, and forestry, will continue in the immediate years ahead to contribute a large share to national income and to absorb a large portion of the increase in the labor force. Production in agriculture must expand, and land productivity increased in order to (1) meet food requirements of the economy, (2) raise traditional agricultural export production, and (3) provide surplus for industrial processing. Thus, although the proportionate share of agriculture to national income has declined from 39.8 per cent in 1950 to 33.5 per cent in 1960, it is expected that in the immediate future this sector of the Philippine economy will still account for the largest percentage of national income.

### *Measures for Expanding Agricultural Production*

In order that the necessary levels of productive investments will be encouraged to be channelled into agriculture, livestock, fishing, and forestry, some of the measures that will be carried out by government and private sectors include:

1. *In Agriculture.* The construction of irrigation and water control facilities, the continuation of government subsidies for fertilizer and seeds, expansion of research programs for developing high-yielding and disease-resistant varieties, establishment of liberal credit facilities, and improvement of marketing.

Fertilizer and seed subsidy for rice and corn in the amount of ₱30 million annually is a current program which is expected to be continued. Price-support programs for Viriginia tobacco of about ₱60 million is expected to continue although to taper off as production increases, while price-support for rice during 1962 is expected to amount to ₱50 million. Under this type of program, the government makes outright purchases of stocks (within the limitations of the available funds).

2. *In Livestock.* The program includes the establishment of breeding and stock farms. The importation of superior breeds of beef and dairy cattle, and the expansion of a livestock dispersal program for pure breeds. The installation of slaughterhouses and cold storage facilities for demonstration purposes form an essential part of the program.

3. *In Fisheries.* Mechanization of native craft and gear for municipal fisheries, establishment of a loan fund for financing offshore fishing, a proposed fertilizer subsidy for fishponds and other related measures constitute the proposed government efforts to develop the fishing industry. Programmed government expenditures include about ₱750,000 yearly for establishment of demonstration fishponds, fertilizer subsidy, and extension work.

The private sector program includes expansion of fishponds, acquisition of fishing boats, improvement of native gear in annual amounts of about ₱25 million annually.

4. *In Forestry and Hunting.* Improvement of forest management, forest protection, reforestation, and replenishment of wildlife constitute vital government measures to be supported by average annual expenditures of about ₱7.5 million annually. Dynamiting of fish may be stopped.

### B. *Implementation*

Supervised farm credit, tenure reform, agricultural extension, and related measures constitute the framework within which the agricultural program will be implemented.

Agricultural production in this country is carried out largely on small-sized farms. To render the achievement of the program possible, the various related measures mentioned above must be coordinated. The role of supervised credit is to induce the farmer-borrower to utilize the available credit facilities fully: the various production and related operations that are financed must be efficient so that maximum utilization of the loan is obtained. As an important complementary measure, agricultural extension work forms an integral part of supervised credit.

With the resultant increase in production that may be obtained from application of better techniques of production (that are induced by supervised credit and agricultural extension work) the problem of efficient marketing arises. The farmer must be able to obtain additional returns or income from increased production; otherwise incentive to production is eliminated. Two factors are important in increasing farm income, assuming an increase in production: (1) improvements in land tenure relationships, particularly terms involving crop-sharing; and (2) the marketing system which will assure stability of prices and if possible reduce marketing costs so that increases in production will not result in a decrease in prices.

## C. Production Targets

*Agricultural Crop Production.* The steady increase in the production of farm crops is expected to continue well into the future. Over the next five-year period, the agricultural production program will be in the following broad magnitudes:

| Crops | Annual Production in Thousand Metric Tons | | | | |
|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 |
| *Food Crops* | 8,793 | 9,226 | 9,720 | 10,246 | 10,917 |
| Rice (rough) | 4,158 | 4,312 | 4,475 | 4,651 | 4,840 |
| Corn | 1,316 | 1,375 | 1,440 | 1,509 | 1,585 |
| Fruits and nuts | 1,046 | 1,109 | 1,198 | 1,311 | 1,463 |
| Root crops | 1,500 | 1,655 | 1,717 | 1,787 | 1,857 |
| Beans and vegetables | 695 | 689 | 792 | 876 | 1,044 |
| Others | 78 | 86 | 98 | 112 | 128 |
| *Commercial Crops* | 16,382 | 17,134 | 18,020 | 19,016 | 19,778 |
| Coconuts | 596 | 634 | 685 | 748 | 823 |
| Copra | 1,160 | 1,200 | 1,230 | 1,310 | 1,280 |
| Sugarcane | 13,991 | 14,610 | 15,353 | 16,133 | 16,675 |
| Abaca | 110 | 125 | 145 | 170 | 200 |
| Tobacco | 73 | 78 | 84 | 91 | 100 |
| Cotton and other fibers | 39 | 51 | 63 | 76 | 89 |
| Others | 413 | 436 | 460 | 487 | 511 |
| Total | 25,175 | 26,360 | 27,740 | 29,262 | 30,695 |

1. *Rice Production.* To achieve self-sufficiency in rice, the annual production of rough rice must increase by an average of about 5% annually, from an annual production in 1960 of some 3,740 thousand metric tons to 4,840 thousand metric tons for 1967. In terms of milled rice equivalent, production by 1967 must reach 2,964 thousand metric tons. To meet required production, yields of rough rice per hectare of area planted must increase from about 26 cavans (of 44 kilograms net) to about 31 cavans; and area planted, must expand by about 55,000 hectares.

Average yearly investments of about ₱30 million are expected to meet production targets. This amount includes expansion of irrigation works, clearing of new land, expenditures on new farm equipment and work animals, and other related capital outlays.

2. *Corn Production.* The annual production of shelled corn must increase by about 270,000 metric tons (from about 1,316,000 metric tons in 1963 to 1,595,000 metric tons by 1967) in order to sustain self-sufficiency in this crop, for food and for animal feeds. To meet production targets, yields per hectare must be increased from an average of about 15 cavans of 56 kgs. to an average of about 25 cavans with the use of fertilizer and hybrid seeds, and

area planted to this crop expand by about 200,000 hectares. However, no new clearings of land are envisioned; but the emphasis is on double or even triple planting of land for this crop.

3. *Other Food Crops.* Production of fruits and nuts (excluding coconuts) is programmed to increase by about 415,900 metric tons, mostly through improving yields per hectare by fertilizer application, insect control, and the like; and production of other food crops are also to be expanded on the basis of increases of area planted and of yields.

4. *Export Crops.* The program for all export crops calls for increases in production by more than 25 per cent over the next five years. The programmed annual production in sugarcane by 1967 in order to sustain current quotas and to meet increasing domestic consumption, is about 16,000 metric tons; while the annual production of copra must increase from 1,075 thousand metric tons in 1960 to 1,400 thousand metric tons by 1967 in order to maintain and increase slightly the export market for this crop.

*Livestock Production.* Production targets for livestock envision an over-all average annual increase of 10 per cent in livestock population (carabaos, cattle, swine, poultry, etc.) in order to accelerate domestic sources of supply for meat. Annual meat production is to be raised by about 50 per cent from 1963 to 1967, with pork meat constituting about 65 per cent and poultry meat about 21 per cent of all meat produced domestically.

The rapid increases in livestock production are premised partly on government assistance in the form of breeding farms for upgrading animal quality, dispersal of high-quality livestock, and disease control. However, the major portion of the expansion in livestock is expected to be provided by private entrepreneurs who will venture into cattle ranching, piggeries, poultry projects, and the like. It is envisioned, however, that livestock production (particularly, hogs) will continue to be produced in small-sized farm units.

*Fishing.* The program for expansion of fish production is as follows:

***Projected Production***
(In thousand metric tons)

| Period | Fishponds | Deep-Sea and Foreshore | Municipal Fisheries | Total |
|---|---|---|---|---|
| 1963 | 56.8 | 140.0 | 294.0 | 490.8 |
| 1964 | 84.0 | 146.7 | 290.5 | 521.2 |
| 1965 | 90.5 | 153.8 | 297.0 | 541.3 |
| 1966 | 98.2 | 161.0 | 303.6 | 562.8 |
| 1967 | 106.2 | 168.8 | 310.1 | 585.1 |

The area for fishponds is expected to increase at about 2,000 hectares annually; and approximately twenty 100-ton fishing boats are programmed to be acquired annually. Improvements in native gear used in municipal fisheries are expected to help increase fish production from this source.

*Forestry.* The annual production program for logs calls for stabilizing production at about 2,600 million board feet. This is believed to be the growth capacity which Philippine forests can sustain, and is approximately equal to the production during 1960. Lumber production, however, is to expand rapidly through the establishment of more wood-processing plants.

### D. *Summary of Investment Requirements*

To meet production targets, the additions to the stock of capital in various agricultural sectors, for the period 1963 to 1967, are summarized as follows:

|  | Gross Investments: 1963-67 |  |  |
|---|---|---|---|
| Sectors in Agriculture | Pesos | Dollars (In Millions) | Total[7] |
| Food Crops | 194.6 | 24.4 | 243.4 |
| Export Crops | 231.4 | 3.0 | 237.4 |
| Fisheries | 114.4 | 45.3 | 205.0 |
| Livestock | 181.3 | 14.6 | 201.6 |
| Forestry | 12.7 | 38.0 | 88.7 |
| Total | 734.4 | 125.3 | 976.1 |

Thus, total gross investments in agriculture during the period 1963–1967 will reach about ₱985.1 million, of which about U.S. $125,380 will be required for the importation of farm implements, fishing boats and gear, lumber equipment, and related machinery and equipment.

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[7] Estimated on the basis of U.S. $1 to ₱2.

# CHAPTER XII

## THE INDUSTRIAL PROGRAM

The industrial program has the following objectives: (1) to expand production of import substitutes in terms of finished, intermediate, and capital goods and (2) to increase production of exportable manufactures. The first objective implies expansion of intersectoral activities and relationships and a reduction in the dependence on imports. An analysis of the import dependence of domestic production and of final consumption indicates substantial imports requirements in certain sectors. Thus, in most industries, for every one unit increase in the demand for final products, there is a corresponding increase in imports of intermediate products (raw materials or goods) for further processing domestically:

| Industry | Import Coefficients (Content of imported intermediate product per unit of final demand) |
|---|---|
| Transport equipment | 0.6679 |
| Textile | 0.3709 |
| Footwear | 0.4958 |
| Machinery, except electrical | 0.4240 |
| Basic Metal and Metal products | 0.3960 |
| Electrical machinery | 0.2170 |

The second objective involves the expansion of the production of certain light manufactures which can be competitive in the world market, particularly in the Southeast Asian market. Such manufactures may include footwear and wearing apparel, pharmaceuticals, cement, cottage industry products, and wood products. With adjustments in the foreign exchange rate, these products may be competitive in the world market.

The industrial program that has been developed include the following sectors: manufacturing, mining, construction, and transportation and communication.

## *The Manufacturing Industries*

The program for manufacturing envisions the following priorities in investments:

| Manufacturing Industry | Total Gross Domestic Investments Over the Period FY 1963–1967 | |
|---|---|---|
| | In Million Pesos | Per Cent Distribution |
| Basic Metals and Metal Products | 1,736.6 | 44.2 |
| Basic and other chemicals | 452.4 | 11.5 |
| Pulp and Paper | 216.5 | 5.5 |
| Food Processing | 179.1 | 4.6 |
| Textiles (ramie and synthetic fibers) | 179.6 | 4.6 |
| Non-metallic minerals | 185.3 | 4.7 |
| Wood Processing | 110.9 | 2.8 |
| Cottage Industries | 90.6 | 2.3 |
| Miscellaneous industries—(footwear, apparels, furnitures, leather, and others) | 774.9 | 19.8 |
| Total | 3,925.9 | 100.0 |

The various individual projects in the metal industries include the establishment of two iron and steel mills with an aggregate annual capacity of 360,000 metric tons; and of copper smelting and refining plants (with an aggregate capacity of 14,000 metric tons annually), aluminum smelting, nickel smelting, zinc smelting, and coal refining plants. In the development of the metal product industries, the manufactures of pipes and fittings, cold rolling of steel and tin plates, and the like have important priorities; and in the domestic manufacture of machinery, the emphasis will be on the manufacture of agricultural tools, machine and hand tools, office equipment, electrical machinery and appliances, and transportation equipment (spare parts).

In the manufacture of chemicals, priorities will be placed on production of soda ash, caustic soda, and fertilizer (including a urea plant). The plastics industry is also programmed for expansion.

The program for the textile industry stresses the integration of cotton textile manufacturing sector and the expansion of ramie and synthetic fiber textile manufacture.

In the pulp and paper industry, the manufacture of pulp and newsprint take precedence; and the project proposals received by the government concerning expansion in this type of manufactures envision investments of about P114 million over a span of 5 years.

In the food processing industry, the canning of meat, fruits and vegetables takes initial priority. Expansion in the capacities for milling rice, corn, wheat, and cassava constitute a significant portion of the program for this industry.

The expansion of the production of non-metallic mineral products are expected to include such products as glass, cement hollow blocks and pipes, construction materials and household fixtures, chinaware, and glassware.

In the wood-reprocessing industry, expansion of the capacities of sawmills, plywood and veneer plants, furniture manufacturing and other woodworking activities have been programmed. It is the intention that the exportation of logs be held constant and emphasis be placed on the domestic processing of logs and lumber into various end products.

In the rest of the manufacturing sectors, emphasis will be placed on the development of small scale and cottage industries, including manufacture of wearing apparel, footwear, optical instruments, manufacture of agricultural implements and tools, and hand-weaving and other handicrafts.

### *The Mining Industry*

The production of the mining industries is aimed at fulfilling export demand and at supporting the proposed domestic metal industries.

The program for this industry includes both exploration and exploitation of mineral resources. During the period 1963–1967, it is estimated that capital outlays in oil exploration by the private sector will total about ₱50 million; while exploration for metals will require about ₱15 million for the period.

It is estimated that the development of metal and non-metal mineral resources, investments in the exploitation of metallic minerals will amount to more than ₱320 million during the aforementioned period, of which 16.7% will be for precious metals (gold and silver), 65.8% for base metals and 17.5% for non-metals. Development of coal, pyrites, and limestone deposits during the five-year period being considered may total to more than ₱56 million.

### *Construction*

The expected investments in construction will be utilized for (1) residences and commercial buildings, (2) plant buildings, (3) roads and highways, (4) portworks and airports, (5) irrigation, water supply and flood control, and (6) government buildings. The priorities in the construction program are as follows:

| | Investments Fiscal Year 1963–67 | |
|---|---|---|
| *Public Works* | Amount in Million Pesos | Per Cent Distribution |
| Water supply and flood control | 471.3 | 19.4 |
| Roads and highways | 295.0 | 12.1 |
| Irrigations | 174.2 | 7.2 |
| Plant buildings | 189.5 | 7.8 |
| Airports and portworks | 151.5 | 6.2 |
| *Private* | | |
| Residential | 445.0 | 18.3 |
| Plant buildings | 429.8 | 17.7 |
| Others | 273.0 | 11.2 |
| Total | 2,429.4 | 100.0 |

The requirements for dwelling units, estimated at about 130,000 units per annum, can be met only partially: annual investments expected will provide for only about fifteen to twenty per cent of requirements, with this ratio higher in urban areas.

The construction of government buildings, during 1963–67 include 20,000 classroom units for elementary; 2,125 hospital beds, and 30 national buildings. The government program of providing low-cost housing includes construction of about 3,750 low-cost housing units for sale to low-income groups.

Some 3,000 kilometers of main routes together with 12,500 kilometers of feeder roads will be constructed during the period. Improvement of 56 national ports, 320 municipal ports, 220 lighthouses, and construction of 10,000 linear meters of shore protection works will be undertaken to further the development of inland trade and commerce. Fifty-six airports are programmed for improvement.

In water resources development, the program is designed to achieve the following goals:

(1) Establishment of new power plants to raise the country's installed power capacity by 590,000 kilowatts;

(2) Provision of more irrigation facilities through an increase of the country's irrigated hectarage by 238,000 hectares;

(3) Improvement of 60 waterworks systems including Manila and suburbs, construction of 188 new waterworks projects, tapping of 1,500 springs and digging of 30,000 artesians wells to serve potable water to about 2.5 million people. The construction program places emphasis on the development of gravity irrigation projects and of

water supply for drinking and industrial purposes. More extensive utilization of domestic construction materials for buildings is also envisioned.

### *Power Development*

The power development program calls for raising installed power capacity by 590,000 kilowatts, through development of hydroelectric power from multi-purpose projects and from the installation of dieselized power plants. The extension of transmission lines, particularly towards cottage industries production centers, are also programmed.

### *Transportation and Communication*

The program for expansion of transportation and communication facilities include additional motor vehicles, extension of railroad tracks north and south of Manila by about 475 kilometers, additional air (about 40 airplanes) and water (by about 215,000 gross tons for overseas and inter-island shipping) facilities, and more telephone units (by about 145,000).

The emphasis of the program is towards growth in facilities for the purpose of expanding trade and reducing costs. Thus, facilities are programmed to service trade centers and the rural areas served by such centers; and incorporates measures to reduce costs by bulkhandling of cargo shifts to diesel engines, and more economic allocation of franchises for public utilities.

## Chapter XIII

## REGIONAL DEVELOPMENT

The regional distribution of population and production activity in the Philippines has been uneven. The Philippine population is distributed unevenly among regions: the highly populated regions are Central Luzon, East Visayas, where densities of population per square mile are 351 persons and 337 persons, respectively, as compared to a national average of about 200 persons per square mile. The sparsely populated areas are Southern Mindanao (including Sulu) which has a population of 84 persons per square mile; Northeast Mindanao with 96; and Cagayan Valley which has about 100 persons to the square mile. The Philippine population has also shifted over the last 60 years. At the turn of the century, only about 8% of the Philippine population were in Mindanao, as against 1960 when about 25% of the total population were residing in this particular area.

In terms of regional production activities, about 73% of manufacturing production is concentrated in the Metropolitan Manila areas and the adjacent Southern Tagalog region. Regional differences in types of agricultural production activity are also evident, differences which have been the result of centuries of regional specialization arising from competitive advantages offered by existing physical and other factors in each region. Thus rice production is concentrated in the flat terrains of Central Luzon, where the land is composed of clayey loam suitable to rice paddies. On the other hand, the Ilocos regions have dry sandy loam, not too rich to organic materials, which render the land fit for tobacco culture. The difference in region are further evidenced by the industrial distribution of the labor force: more than 46% of the total labor force in manufacturing are concentrated within the Southern Tagalog, Central Luzon and Metropolitan Manila areas, (Metropolitan Manila itself accounting for about 22%). The Ilocos and Cagayan Valley areas appear to be the least industrialized, each region having only about 2% of the labor force engaged in manufacturing.

### *Specific Regional Programs*

In the regional development program of the Philippines, however, priority is placed on the most promising areas. In line with this basic policy, the Philippine Congress has established two regional development programs, one for the Mindanao area; the second for the Central Luzon-Cagayan Valley area.

In an effort to bring about a more equitable regional development, the government, by legislative fiat, has established regional programs for (1) the Mindanao area and (2) the Central Luzon-Cagayan Valley area. The regional program for the latter area will emphasize irrigation and power development; while the program for Mindanao proposes to include all types of industrial and agricultural development. To date, no program has been prepared for the development of the Central Luzon-Cagayan Valley region. For the Mindanao program however, a detailed study and a program draft for a five year economic and social development program for Mindanao (including Sulu and Palawan) covering the fiscal years 1962–1966 have been prepared.

The Mindanao program provides for an over-all development of that area and involve development of agriculture, mining, and manufacturing, power and all other economic sectors in Mindanao. A total financial outlay of ₱1.23 billion is envisioned during the five-year period of which about ₱0.7 billion will be forthcoming from the public sector including local government revenues, reparations, foreign aid and borrowings, appropriations from the national government, and borrowings from government financial institutions. The financing of the private investment program shall be drawn from sources within the areas as well as from other areas of the Philippines.

Some of the specific industrial projects for the area include the following:

1. An integrated steel mill which will produce 230,000 metric tons of finished products annually.
2. Aluminum plants, with capacities of 25,000 tons of aluminum from bauxite, and electrical power and 25,000 tons of aluminum ingots annually.
3. Coke plants with annual capacities of about 175,000 tons of coke per year.
4. Integrated polyvinyl-chloride plants.
5. Urea fertilizer plant.
6. Industrial salt-making plant.
7. Paper pulp plants, with annual total capacities of 30,000 tons of pulp.
8. Plywood and veneer plants with capacities of over 450,000 panels annually.

Since the area is endowed with tremendous water power resources, hydro-electric power development underlies the industrialization program of the area.

The regional development program is also premised on regional production patterns, available supply of raw materials and on accessibility of markets. Provincial industry surveys prepared by the Industrial Development Center (a joint project of the Philippine National Economic Council and the U.S. Agency for International Development) places emphasis on industrial projects utilizing raw materials available in each provincial area.

*Organization of regional development program.* In the preparation of workable regional development program, detailed studies will be developed for specific regions. The studies will identify priorities and incorporate particular projects for implementation within a framework that will provide internal and external consistencies.

In the implementation of regional programs, the tasks shall be divided as follows:

1. *Production:* There will be extension specialists not only for agriculture but also for manufacturing and for service industries, who will provide expert advise on production and related operations.

2. *Financing:* Not only will adequate financing facilities be provided, but credit shall be supervised to ensure maximum utilization of loans in agriculture and non-agricultural ventures.

3. *Marketing:* Marketing services will be provided to assist in the efficient distribution of produce.

### *Community Resettlement*

There is a continuous internal shift in the Philippine population. This internal migration consists of population movements from one region to another, from rural to urban areas, and from urban to rural areas. Thus, inter-regional movements have occurred for instance, from the Ilocos region to the Cagayan Valley region; from Visayas to Mindanao. The continuous rural to urban migration are evidenced by the extremely rapid growth of the population in Metropolitan Manila area and other urban areas relative to total population growth.

These various types of internal migration, which is continuously taking place, require a program for community resettlement. This program should include not only rural to rural-frontier settlements but, in the larger sense, migration from rural to urban areas and from one region to another. Community settlement services should include re-training of migrants in new skills, placement in jobs, and related activities.

## Chapter XIV

### SOCIAL WELFARE AND MANPOWER POLICY

Economic development becomes meaningful when the broad base of the population are able to enjoy a decent level of living, and social order prevails.

*Social Welfare.* In the enjoyment of better living, various types of services are essential: education, health, and other related services.

The government's program for public education calls for outlays totalling ₱656.6 million for the next five-year period as follows:

| Levels | Outlays, 1963-67 (In million pesos) |
|---|---|
| Elementary | 385.2 |
| Secondary | 54.3 |
| College | 4.7 |
| Others, (Fisheries, schools, books, etc.) | 181.2 |

Of this total, about ₱237.14 million will be for capital outlay.

The public health program calls for improvement of the expectations of life: by reduction of deaths from controllable diseases and by expansion of medical services. Specific measures include expansion of health services in rural areas, reduction of infant mortality, tuberculosis and malaria control, establishment of medical research center, and nutrition research. Expenditures to carry out these public health measures will reach about ₱470 million over the next five-year period, of which about ₱18 million will be for capital outlay.

*Other Services.* Public services for improvement of general living standards include housing, child welfare, social work, and related activities. The magnitude of the annual demand for housing is indicated by the growth in the number of households of about 130,000 yearly. Government low-cost housing projects, however, will be modest at about ₱3 million annually over the next five-year period. More reliance will be placed on private construction to meet the demand for dwellings. Child welfare and social work designed to reduce delinquency and promote adjustments to social problems will be expanded, with this problem particularly made urgent by over-rapid urbanization.

*Manpower Policy and Employment.* By 1967, there will be about 12,300,000 persons offering their services for wage or profit; but available full-time or part-time jobs will probably be only a little less than 11,620,000. Thus, approximately 680,000 persons looking for work by 1967 will not be able to find jobs; and of the 11,620,000 persons who manage to find jobs, about 1,400,000 will be partially employed (that is, working less than 40 hours a week). Thus, there will only be about 10,220,000 persons fully employed by 1967, or only about 88% of the total labor force.

The industrial distribution of the employed labor force by 1967 reflects significant changes in production patterns since 1959:

| Industry | Employed Labor Force | | | |
|---|---|---|---|---|
| | 1959 | | 1967 | |
| | Number (In thousands) | % Distribution | Number (In thousands) | % Distribution |
| Agriculture | 5,528 | 61.7 | 5,640 | 48.5 |
| Industry | 1,084 | 12.1 | 2,347 | 20.2 |
| Construction | 278 | 3.1 | 351 | 3.0 |
| Basic Facilities, Services and Trade | 2,069 | 23.1 | 3,279 | 28.3 |
| Total | 8,959 | 100.0 | 11,617 | 100.0 |

Some 330,000 to 360,000 jobs will be provided annually to absorb a large portion of the yearly increase in the labor force.

However, most of the jobs that will have to be created will be in the manufacturing and services sectors: in manufacturing, some 160,000 new jobs will be created yearly; and in the services sector, also about the same number. While employment in agriculture will increase in absolute terms, the rate of growth in the number of employed persons will be restricted to only about one-fourth of one per cent annually.

The shift of the labor force towards non-agricultural production will require significant changes in worker attitudes and orientation, acquisition of industrial skills and expansion of personnel management skills. To meet these necessary adjustments, training programs and education of workers will be important. Program targets include manpower training, including vocational and apprenticeship training systems and placements services.

To guard against exploitation of labor, strict implementation of existing labor standards will be a vital part of the labor program. Some of the labor standards may have to be changed, upon proper study, to conform with realities of new situations.

The improvement of labor-management relationships through voluntary arbitration and mediation of industrial disputes also forms an integral part of the manpower program.

In general, manpower policy shall be aimed at providing the economy with an adequate supply of trained workers.

## Chapter XV

## THE IMPERATIVES OF GOVERNMENT POLICY AND PUBLIC ADMINISTRATION

1. The goals we seek and the present condition of the Philippine economy make it essential for Government to accomplish the following:

*a*) Establish a new, more stable base and a favorable climate for future growth.

The deceleration in the economy's expansion during the last three years indicates that the possibilities for continued progress under the existing framework have been exhausted. The country must find a new dynamic and a fresh climate for enterprise.

*b*) Distribute the burdens of adjustment equitably.

The establishment of a new complement of policies necessitates adjustment—the beneficiaries of older policies must suffer the burden of losing benefits. It is incumbent on government to anticipate and measure the costs of adjustment, and to distribute its burdens in an optimal fashion.

*c*) Protect the gains of Filipino industries so far and assist them in adjusting to the new policies.

*d*) Provide inducements and assistance to industry in general and protection to Filipinos for the achievement of future growth.

*e*) Growth will mean gains and new benefits. It is incumbent on government to ensure the equitable distribution of gains from progress—so that labor shall participate with management and capital, the farm with the factory and the trader, the barrio with the town and city in the fruits of progress.

2. The immediate programs that give substance to these objectives are:

*a*) The decontrol program which shall accomplish a two-fold purpose.

1) Adjust and unify the exchange rate in order to establish a more beneficent relationship between domestic costs and world prices and put our domestic producers in a stronger competitive position with the rest of the world.
2) Dismantle the present system of direct allocation of foreign exchange among individual users and thereby eliminate the cumbersome regulations and red tape that hamstring exporters, importers and domestic producers, create

economically irrational and wasteful patterns of resource allocation and provide opportunities for illegal and immoral exactions on private business.

b) The establishment of an alternative machinery for accomplishing the other legitimate objectives of exchange controls, such as, rational allocation of foreign exchange according to essentiality of uses, the protection of domestic industries against undue external competition, and the assistance to Filipino businesses. This machinery must encompass the entire arsenal of government instruments—monetary policy, fiscal and tax policies, commercial policy tools administered by the Tariff Commission, the Department of Commerce and Industry, the Department of Finance, the Department of Foreign Affairs, the Government Financial Institutions and the National Economic Council. The full extent of the powers granted by law to the President and to these agencies shall be used to soften the impact of decontrol and exchange rate adjustment on the consumption levels of middle and low income groups and to assist Filipino business in adjusting their operations to the new cost and price situations that will necessarily emerge.

There must be no illusions about the decontrol program. Many of the adjustments will be painful. But the resulting framework will be one that will give a stable basis and a more realistic and sober impetus to a new growth trend which will extend much farther into the future. The new dynamic for economic progress that will emerge will be of a more genuine quality and will provide a richer and longer lasting energy for national progress.

c) The Executive branch will attempt to use the powers and authorities it now possesses to achieve maximum effectiveness and optimum coordination in the pursuit of these programs. It will be necessary to seek some changes in basic statutes. For this, the assistance, understanding and cooperation of Congress will have to be secured.

3. The restoration of a larger degree of freedom of enterprise in the country does not remove from Government the obligation to exercise economic leadership. On the contrary, the leadership of Government becomes all the more important. Its exercise must be upright and more firm, more imaginative and far more dexterous.

The first prerequisite of such a leadership is an effective organization for setting meaningful goals and consistent, stable economic policies.

The second prerequisite is to ensure coordination among the manifold branches of Government and remove conflicts and inconsistencies between avowed goals and day-to-day operations. These conflicts are wasteful of effort and energies, confusing and irritating to all who deal with Government. They can become serious bottlenecks to investment, production and trade.

In the past, the coordination of various departments and agencies in the Executive Branch of Government in the preparation and implementation of Government economic programs or in the formulation of economic policies has been most deficient. The National Economic Council was presumably charged by law with the obligation of preparing the economic program of the Government. The Monetary Board of the Central Bank, however, prepared its own programs and formulated its policies on credit and foreign exchange quite independently. The Budget Commission prepared a fiscal program which did not necessarily reflect priorities consistent with those of the National Economic Council's, the Government financial institutions pursued their own lending programs and the regular departments of the executive branch carried on their day-to-day business in accordance with guiding policies and objectives not necessarily consistent with those established by the other agencies.

As a result, the Government becomes a source of confusion and irritation rather than a source of inspiration, stability and leadership.

In order to change this, two things are required: First, a change in concepts of organization and procedures; second, a change of attitudes, outlook and spirit in the men who implement the authorities and powers of the government's branches.

The strategic role of the Government as defined in this program underscores the need for increasing its capacity to plan, coordinate, implement and evaluate its policies and projects. Administrative reforms are therefore proposed.

### *Problems of Public Administration*

The *basic problems* of public administration are the following:

1. Unemployment and rapid population growth increase the pressures for government employment in violation or circumvention of civil service laws and merit standards. The spoils system in turn contributes to inefficient management, demoralization of career civil servants and corrupt practices. In the face of limited employment opportunities elsewhere the career civil servant is vulnerable to political interference in the performance of his tasks.

2. Rampant official corruption exists. This is encouraged by economic controls, red tape, partisanship, poor pay, high standards and cost of living, and a breakdown of moral standards in the community. Responsible officials often find themselves powerless to discipline errant subordinates, because of lack of final authority, and again, political meddling.

3. Past attempts at comprehensive economic and social development planning have failed to secure the necessary presidential, political, administrative and citizen support. Defects in the organization structure for planning call for the decentralization of the planning function to various government agencies and local governments as well as to regional development bodies. There is need to clarify the planning concept and the respective roles of government agencies engaged in development planning and administration.

4. The realization of policy objectives is often defeated by a legalistic and control-minded system of management. Complicated legal procedures and internal rules actually fail to stop irregularities in government transactions. On the contrary, it seems that much of the red tape is intentional, because shortcuts are constantly being made for a price and irregularities usually involve many of those participating in the cumbersome and time-consuming process. The waste of government funds and time and the loss of goodwill of the public are incalculable.

5. There is lack of coordination in the initiation of new programs and the agencies to take care of them. Individualistic administrators, in alliance with similarly individualistic legislators, are able to launch their pet projects with little or no relation to top policy priorities of the national administration. There appears to be no effective system for setting and enforcing over-all priorities in the allocation of revenues to the various programs of the Government. On the other hand, policy-makers and administrators normally tend to expand their spheres, often in imitation of the governments of highly industrialized countries.

6. The standards of administrative leadership in many agencies are low. However, this is not always brought about by political appointments, which may actually invigorate the career staff. The latter may be operating under a so-called merit system that actually puts a premium on seniority alone, resulting in the advancement of loyal but mediocre men. In certain agencies competent, trained and experienced staff members are properly placed or appreciated.

7. In more than a few instances, management arms of the Government, such as the General Auditing Office and the Bureau of Supply Coordination overstep their bounds to actually exercise authority over the management of substantive programs, without, of course, assuming responsibility for results. Considerable energy and time, and therefore money, are expended in trying to satisfy the demands of irresponsible supervisors.

8. A tendency to centralize or "pass the buck upwards" is widespread in the government. The resulting centralization at the highest administrative rungs, and especially in Malacañang, compounds

the internal red tape in the department and agencies. Again, the delays consume valuable time and resources and breed graft. Worse, it discourages initiative and a sense of responsiveness at the lower levels. The magnitude of the resulting problem is suggested by the farflung national administration and the dependence of the local governments upon the national government.

9. Policy-makers in the Executive Branch and in Congress need more adequate policy and technical staffs to assist them. There is probably an excess of clerical, custodial and administrative personnel in relation to technical and service staffs in a great number of agencies. Moreover, in certain service agencies a disproportionate part of the total staff remain in Metropolitan Manila.

10. Local governments are generally weak in finance and personnel. Even the more prosperous provinces and cities are not able to keep a substantial share of the revenues they collect. Local government chief executives in these provinces and cities do not even enjoy authority to manage their offices effectively. The only participation of local government executives in economic and social development planning is their work as chairman of local community development councils. Here, their effectiveness is sharply curtailed by the very limited funds at their disposal.

11. In spite of the creation of the Council of Administrative Management, there has been no effective central machinery for the systematic improvement of administrative organization and management in the government. In absence of strong administrative leadership in the past, management improvement agencies like the Management Service, the Civil Service Commission, the Presidential Committee on Administrative Performance Efficiency (PCAPE), and the U.P. Institute of Public Administration have been operating very much independently of each other.

### *Administrative Reforms*

Here are the *administrative reforms* recommended:

1. The economic development program should be the integration of departmental and agency plans and programs. Since planning and execution are interrelated and continuous operations, primary responsibility for planning rests with agencies concerned with economic and social development activities. The national planning agency, the NEC or its successor agency, should be stripped of operating responsibilities and shall confine its role to (1) providing common concepts and methods to guide agency and regional planning; (2) setting statistical standards; (3) integrating plans and programs of departments into the national economic development plan or program and providing periodic review and evaluation of that program.

The National Economic Council should eventually be composed of full-time experts and specialists of national stature. Its chairman should enjoy the president's fullest confidence as the Government's highest economic adviser. He shall have no veto authority over heads of departments and agencies. Through the President, the Chairman of the NEC shall exercise only the authority of expert advice and technical assistance, reminding operating officials that their policies and programs are not in keeping with the integrated economic development program.

2. The Cabinet shall cease to behave as a national board of directors. Its primary function should be that of an advisory body to help the President reach policy decisions and as a coordinating body in the implementation of the various departmental and agency programs. It is the responsibility of the department and agency head to prepare and implement his departmental plans.

3. The Central Bank should continue in its task of planning and implementing monetary and credit policies, but this should be closely coordinated with the work of the National Economic Council. The President should likewise use his authority and influence to bring the government financial institutions and the government corporations to adapt their policies and operations to the over-all economic development program.

4. The Budget Commission shall act as "Comptroller of the Government" and as principal agency for guiding the *direct* participation of government in the implementation of the integrated economic development program. It shall set and enforce priorities in government current expenditures and in capital programs.

5. As recommended in Chapter VII, Foreign Economic Policy Council headed by the Secretary of Foreign Affairs shall be created to formulate and carry out the government's foreign economic policy. This Council shall be composed of the secretary of commerce and industry, the secretary of finance, and the governor of the Central Bank, and (the secretary of economic coordination). An inter-departmental technical committee shall service the cabinet committees. Its members shall be drawn from the technical staffs of the agencies represented in the Council.

6. Regional development authorities such as the Mindanao Development Authority and the Cagayan Valley Authority should be given increasing authority and financing to plan and implement regional development schemes. In view of the rapid urbanization and the growth of commerce and industry within its area, a Manila Metropolitan Development Authority might be desirable.

7. The community development planning being carried out by provincial and municipal community development councils shall be gradually widened to include economic planning. Local government executives may be assisted by technicians from the National Economic Council in the conduct of economic surveys and in the training of their own technical staff. Local governments will also be assisted in obtaining loans for development purposes.

8. The President will take direct personal and official interest in a program for the systematic improvement of public administration. In place of, or in addition to, the present Council of Administrative Management, the President will assign a senior assistant on administrative management who shall be directly responsible to him for stimulating, coordinating, and executing a continuing program for improving organization and management throughout the Executive Branch. To give the President full continuing authority for the assumption of these new responsibilities, the President will seek appropriate legislation to enable him to reorganize any department or agency, subject only to the usual control of Congress over the executive budget. The presidential assistant on administrative management, in cooperation with the NEC chairman, shall help screen all proposals on new administrative agencies. The President may delegate to the heads of departments and agencies the authority to draw up plans for reorganization.

9. Immediate steps will be taken towards the delegation of appropriate authority and responsibility from the President to the department heads, to the heads of offices, and so on down the line. As a result, only major policy and political problems should be decided at the departmental or presidential level. The President shall ask all department and agency heads to identify all the decisions that can and should be delegated to subordinate officials. The necessary executive orders, laws and circulars should be prepared. Management analysts will be asked to help to further simplify procedures. The public should be given full, written and free information on how they may obtain the services they seek in every government office. Appropriate time limits should be prescribed for the rendering of specific services to the public.

10. Under the concept of the new administration, the President and key administrators at all levels will set the example for integrity, dedication and simple living. The Anti-Graft Law and related laws governing official behavior will be enforced. Decentralization, and simplification and publication of procedures, should reduce the delays and uncertainties that breed graft. All pending and recently completed government transactions shall be publicized fully in the major newspapers.

11. Department and agency heads shall be authorized to discipline and remove for cause incompetent or venal officials and employees. Appeals to the Civil Service Board of Appeals shall be limited to a breach of prescribed standards and procedures; they should be settled within a given time limit.

12. To the extent feasible, the salaries of administrators and technical staffs shall be raised to levels commensurate with their duties and responsibilities, and in relation to the lower ranks which have been previously adjusted (by minimum wage laws and salary standardization). The raising of salaries of constitutional officers, which somehow act as ceilings on the pay of subordinate administrators and technical staff, will also be considered.

13. The proper place and function of management arms or auxiliary staffs will be defined and observed, so as not to impede the work of operating officials. Specific and prompt action is needed with respect to the General Auditing Office and the Department of General Services which tend to encroach upon or block departmental or agency operations.

14. The career service and merit system shall be extended upward to include the Undersecretary and equivalent ranks and downward to embrace all except the laborer and emergency employee classes.

15. The President and agency heads will attempt to maintain reasonable ratios between administrative and service personnel and between central office and field personnel.

16. Strong and progressive leadership shall be provided in the Civil Service Commission, the Department of General Services and the Budget Commission.

17. The establishment of an Executive Academy within the University of the Philippines shall be considered to conduct residential training for government executives and senior civil servants.

18. A program for local government research and training in the U. P. Institute of Public Administration shall be considered for financing. This program shall service policy-makers interested in local autonomy and administrative decentralization.

19. The training activities of departments and agencies to raise the levels of administrative standards and performance shall be strengthened and supported.

20. The repeal of existing laws that obstruct the development of a career service based on the merit system shall be studied for proposal to Congress. Reference is made to the following laws: R. A. 1079 (making civil service eligibilities permanent and retroactive),

R. A. 1080 (granting civil service eligibility to those who have passed bar and board examinations), R. A. 1184 (permitting conversion of the bar or board eligibilities to the general grade eligibilities), and R. A. 557 (requiring erring policemen to be administratively heard by the local board or council, removing from the local executive the power to discipline his police force).

21. The WAPCO plans shall be continually updated to be realistic and equitable and those which are meritorious will be implemented immediately.

22. Special attention will be paid to the administration of the Bureau of Internal Revenue and the Bureau of Customs. The recommendations of the management teams that recently surveyed the two bureaus will be carried out. Citizen councils will be created to watch over the conduct of officials in these agencies in places where graft is likely to be committed.

23. The measures recommended by the Tax Commission to put more teeth into tax laws and increase tax collections shall be studied and when found desirable, implemented.

24. A concrete program shall be developed for the systematic relocation of government agencies and offices in the capitol city.

Within limits, the Government will provide office facilities to professional associations of government personnel which aim to promote the effectiveness of their individual members in contributing to administrative management.

## ANNEX—*New Taxes: Excerpts from the Report on Philippine Economic growth by the International Bank For Reconstruction and Development.*

188. Thus there remains a gap to be filled by increased taxation of around ₱1,500 million. Philippine Government revenue as a proportion of G.N.P. is low compared with other less developed countries. The average ratio for the last five years is 10% in the Philippines compared to more than 20% in Burma, Ceylon and Taiwan. More than one-third of Philippine tax revenue is derived from imports. There are no export taxes. The personal income tax plays a relatively minor role owing to (i) the high level of exemptions and deductions, (ii) widespread evasion and (iii) low marginal rates in the middle income brackets. The corporate tax is gaining weight with growth in the manufacturing sector and expiration of exemptions. Revenue from agricultural land taxes has been stagnating at a very low level.

189. The over-all structure of taxation is such that revenue receipts are not responsive to increases in income. As already noted, revenue receipts at existing rates may fail to keep pace with G.N.P. between fiscal 1960 and 1967. This implies a marginal tax rate lower than the average, on the basis of existing legislation. If no new taxes are enacted, the Philippine Government will have to be content with playing a receding role in economic activity. Given the needs for public expenditures and capital transfers already outlined, this outcome would lead to a most serious weakening of the economic and social base of the Philippine economy. If the Philippine Government wants to follow purposive economic policies, tax revenues must be raised significantly.

190. Achieving the suggested target of ₱1,500 million in new taxes implies a marginal tax rate, in relation to GNP, of 22% and an average rate in 1966–67 of 14% compared to 11.5% in 1960–61. Even after the implementation of this program, the Philippine tax effort will remain modest compared to neighboring Asian countries which have lower per capita incomes. Seen in the prespective, the target suggested by the Mission appears realistic. If the Philippines implements this goal with political determination it will be demonstrating a national willingness to bear sacrifices in the pursuit of socio-economic progress.

191. The outline of a desirable tax reform is discernible, although specific measures must await a thorough investigation. The devaluation of the peso which is now in process involves a relative shift in income from the manufacturing and trade sectors to the agricultural and mining interests. In addition, exporters of sugar receive a dollar price in the U.S. market which is well above the world market price. The Mission recommends that a part of this windfall gain should be captured by the public sector, in the form of export taxes on particular commodities. We suggest differential taxes rather than a uniform export tax, on the grounds that the latter is detrimental to an appropriate allocation of resources. Large expansion in the export volume of sugar* and logs (and probably of abaca and copra) is likely to yield returns to the national economy much lower than equivalent increases in exports of other agricultural, mineral or manufactured products. The Mission is unable to recommend the precise form and rate of specific taxes, but our impression is that altogether export taxes can yield at least ₱600 million and possibly much more over the period of the program.

192. The long-term policy objective must be to place increasing reliance on the taxation of incomes and transactions in the domestic sector of the economy rather than the foreign trade sector. The

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* Beyond that for U.S. market.

secular growth of national income is likely to be more rapid than imports and exports. Secondly, the value of foreign trade transactions can be expected to show greater fluctuations than home production. For both these reasons, tax revenues would show greater growth and reduced instability if they were less dependent on foreign trade. Greater reliance must therefore be placed on the corporate and personal income taxes, inheritance and state duties, the real property tax and sales taxes.

193. The present rate of the corporate tax—22% of net income up to ₱100,000 and 30% on income above this level—is low, compared to India, Pakistan (45%) or U.S.A. (52%). The actual collection in fiscal 1960 was only 21% of declared corporate net income. This relatively low effective rate would be vindicated from the economic point of view if a large part of post-tax profits were reinvested. Available evidence indicates that this did not take place in the past. If reinvestment continues to be low even after the devaluation, the rate of corporate profit tax should be raised. Provided and effective tax rate is raised to 30%, the yield might increase by as much as ₱400 million during the plan period.

194. The personal income tax is not yet a mass tax. More than 96% of Filipino families are legally excluded from the purview of the tax. Illegal tax evasion is practiced extensively. The actual number of returns is only half what it ought to be. Income taxed in fiscal 1960 was about 4% of total personal income. The effective tax rate paid by middle income brackets (₱7,000 to ₱10,000 family gross income) was substantially below 1%. The Mission recommends an upward revision of the rate structure, as well as vigorous steps to reduce illegal evasion. Tentative calculations suggest that such a reform may increase yield by more than ₱100 million between fiscal 1963 and 1967.

195. Another obvious possibility for increased revenue is a higher tax on gasoline. At 8 centavos a liter, the Philippine gas tax is among the lowest in the world. An increase to around 12 centavos would yield increased revenue of around ₱260 million for the period as a whole.

196. Finally there are very strong economic and social grounds for much higher taxes on real estate—both urban and rural. In 1956–60, real property taxes yielded ₱265 million. We would suggest that with better enforcement, faster progress on land surveys and title registration urged in the section on Agriculture, and some increase in rates, the yield of this tax might well be increased to as much as ₱500 million in the period, as against the ₱320 million projected on the basis of existing tax rates and records of enforcement.

197. In the full report, the Mission will have additional suggestions regarding the tax system.

### *Programmed Philippine Economic Growth*
### *Fiscal Year 1963–1967*

(Millions of pesos at 1960 prices)

| | FY 1960 (Actual) | 1963 | 1964 | 1965 | 1966 | 1967 | Total 1963–67 | 1967 as % of 1960 |
|---|---|---|---|---|---|---|---|---|
| Gross Product | 11,822 | 13,882 | 14,701 | 15,627 | 16,674 | 17,841 | 78,725 | 50.9 |
| Terms-of-Trade effect (in relation to 1960) | .......... | .......... | .......... | .......... | .......... | .......... | .......... | — |
| Gross Income | 11,822 | 13,882 | 14,701 | 15,627 | 16,674 | 17,841 | 78,725 | 50.9 |
| Net Inflow of Foreign Capital | (47) | 138 | 176 | 218 | 266 | 356 | 1,154 | — |
| Available Goods and Services | 11,775 | 14,020 | 14,877 | 15,845 | 16,940 | 18,197 | 79,879 | 54.5 |
| Total Consumption | 10,318 | 12,077 | 12,672 | 13,345 | 14,106 | 14,986 | 67,186 | — |
| Private Consumption | 9,304 | 10,901 | 11,427 | 12,027 | 12,710 | 13,512 | 60,577 | 45.2 |
| Government Current Expenditures | 1,014 | 1,176 | 1,245 | 1,318 | 1,396 | 1,474 | 6,609 | 45.4 |
| Gross Domestic Investments | 1,457 | 1,943 | 2,205 | 2,500 | 2,834 | 3,211 | 12,693 | 120 |
| Fixed Investments | .......... | 1,830 | 2,086 | 2,373 | 2,699 | 3,065 | 12,058 | — |
| Net Change in Inventories | .......... | 113 | 119 | 127 | 135 | 146 | 640 | — |
| Gross Domestic Savings | 1,504 | 1,805 | 2,029 | 2,282 | 2,568 | 2,855 | 11,539 | — |
| Exports | 1,360 | 1,404 | 1,442 | 1,478 | 1,514 | 1,550 | 7,388 | — |
| Imports | 1,313 | 1,542 | 1,618 | 1,696 | 1,780 | 1,906 | 8,542 | 45 |
| Total Capacity for External Payment | .......... | 860 | 909 | 953 | 1,003 | 1,071 | 4,796 | — |
| Total Capacity to Import (Including Donations Received) | .......... | 821 | 859 | 898 | 940 | 1,003 | 4,521 | — |
| | *1960* | | | *Averages, 1963 to 1967* | | | | |
| Coefficient of Gross Investments* | 12.32% | | | 16.10% | | | | |
| Gross Domestic Savings Rate* | 12.72% | | | 14.66% | | | | |
| Capital-Output Ratio | .......... | | | 2.66 | | | | |
| Annual Increases in: | | | | | | | | |
| Gross Domestic Savings | .......... | | 224 | 253 | 286 | 287 | | |
| Inflow of Capital | .......... | | 38 | 42 | 48 | 90 | | |

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*In relation to Gross Product.

### *Gross Domestic Product by Factor Shares*
### *Fiscal Year 1963–1967*

(Millions of Pesos at 1960 Prices)

| | FY 1960 (Actual) | 1963 | 1964 | 1965 | 1966 | 1967 | Total 1963 to 1967 |
|---|---|---|---|---|---|---|---|
| 1. Compensation of employees | 4,239 | 4,967 | 5,176 | 5,472 | 5,781 | 6,152 | 27,548 |
| 2. Enterpreneurial and property income of persons | 5,394 | 6,322 | 6,652 | 6,964 | 7,358 | 7,829 | 35,125 |
| 3. Private corporate income | 543 | 700 | 777 | 861 | 954 | 1,059 | 4,351 |
| 4. Property income of government | 77 | 96 | 103 | 109 | 116 | 122 | 546 |
| 5. TOTAL: National Income at Factor Cost | 10,253 | 12,085 | 12,708 | 13,406 | 14,209 | 15,162 | 67,690 |
| 6. Depreciation | 583 | 762 | 869 | 989 | 1,125 | 1,278 | 5,023 |
| 7. Indirect taxes less subsidies | 846 | 933 | 1,014 | 1,112 | 1,202 | 1,237 | 5,498 |
| 8. TOTAL: Gross National Product | 11,682 | 13,780 | 14,591 | 15,507 | 16,536 | 17,677 | 79,211 |
| 9. Net remittances of profits and interest | 140 | 102 | 110 | 120 | 138 | 164 | 774 |
| TOTAL: Gross Domestic Product | 11,822 | 13,882 | 14,701 | 15,627 | 16,674 | 17,841 | 78,725 |

## PHILIPPINES: *Private Appropriation Account*
## *Fiscal Year 1963–1967*

(Million Pesos at 1960 Prices)

| | 1963 | 1964 | 1965 | 1966 | 1967 | Total 1963–1967 |
|---|---|---|---|---|---|---|
| ***Allocation:*** | | | | | | |
| **Private Consumption Expenditures** | 10,901 | 11,427 | 12,027 | 12,710 | 13,512 | 60,577 |
| **Direct Taxes** | 524 | 559 | 588 | 636 | 708 | 3,015 |
| **Private Savings** | 734 | 797 | 870 | 945 | 1,027 | 4,373 |
| **Total Private Outlay** | 12,159 | 12,783 | 13,485 | 14,291 | 15,247 | 67,965 |
| ***Sources:*** | | | | | | |
| **Compensation of employees** | 4,967 | 5,176 | 5,472 | 5,781 | 6,152 | 27,548 |
| **Entrepreneurial and Property Income of Persons** | 6,322 | 6,652 | 6,964 | 7,358 | 7,829 | 35,125 |
| **Transfer Payments** | 132 | 140 | 150 | 160 | 169 | 751 |
| **Net Donations from Abroad** | 38 | 38 | 38 | 38 | 38 | 190 |
| **Total: Personal Income** | 11,459 | 12,006 | 12,624 | 13,337 | 14,188 | 63,614 |
| **Other Private Income [Private Corporate Income]**[10] | 700 | 777 | 861 | 954 | 1,059 | 4,351 |
| **Total Private Income** | 12,159 | 12,783 | 13,485 | 14,291 | 15,247 | 67,965 |

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[10] Includes reinvested earnings of foreign corporations in the Philippines.

## PHILIPPINES: *Government Appropriation Account*[11]
## *Fiscal Year 1963–1967*

(Millions of Pesos at 1960 Prices)

| | FY 1963 | 1964 | 1965 | 1966 | 1967 | |
|---|---|---|---|---|---|---|
| Government Current Expenditure | 1,176 | 1,245 | 1,318 | 1,396 | 1,474 | 6,609 |
| Transfer Payments | 132 | 140 | 150 | 160 | 169 | 751 |
| Government Savings | 283 | 329 | 379 | 436 | 462 | 1,889 |
| Total Outlay | 1,591 | 1,714 | 1,847 | 1,992 | 2,105 | 9,249 |
| Indirect Taxes Less Subsidies | 933 | 1,014 | 1,112 | 1,202 | 1,287 | 5,498 |
| Direct Taxes | 524 | 559 | 588 | 636 | 708 | 3,015 |
| Property Income of Government | 96 | 103 | 109 | 116 | 122 | 546 |
| Net Donations From Abroad | 38 | 38 | 38 | 38 | 38 | 190 |
| Total Receipts | 1,591 | 1,714 | 1,847 | 1,992 | 2,105 | 9,249 |

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[11] Both local and National Government.

NOTE.—The account has been adjusted to eliminate incremental revenues and expenditures due to a change in the exchange rate, so that the account may be comparable with the other accounts constructed on the basis of a 2 to 1 exchange rate. This exchange rate has been used to so as not to be involved in complicated estimates of price effects.

## PHILIPPINES: *Combined Capital Account*
## *Fiscal Year 1963–1967*

(Million of Pesos at 1960 Prices)

| *Savings* | 1963 | 1964 | 1965 | 1966 | 1967 | Total |
|---|---|---|---|---|---|---|
| Private Savings | 734 | 797 | 870 | 945 | 1,027 | 4,373 |
| Government Savings | 283 | 329 | 379 | 436 | 462 | 1,889 |
| Depreciation | 762 | 869 | 989 | 1,125 | 1,278 | 5,023 |
| TOTAL: GROSS DOMESTIC SAVINGS | 1,779 | 1,995 | 2,238 | 2,506 | 2,767 | 11,285 |
| *Investments* | | | | | | |
| Gross Domestic Investments | 1,943 | 2,205 | 2,500 | 2,834 | 3,211 | 12,693 |
| Net Lending Abroad | (164) | (210) | (262) | (328) | (444) | (1,408) |
| TOTAL: DOMESTIC AND FOREIGN INVESTMENTS | 1,779 | 1,995 | 2,238 | 2,506 | 2,767 | 11,285 |

### PHILIPPINES: *Rest of the World Account*

### *Fiscal Years 1963–1967*

(Million of Pesos at 1962 Prices)

| *Receipts* | FY 1962 (Actual) | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|---|
| Exports of Goods and Non-factor Services | 1,360 | 1,404 | 1,442 | 1,478 | 1,514 | 1,550 |
| Net Factor Income from Rest of the World | (140) | (102) | (110) | (120) | (138) | (164) |
| Net Donations to the Philippines | 146 | 76 | 76 | 76 | 76 | 76 |
| *a*) Government | 44 | 38 | 38 | 38 | 38 | 38 |
| *b*) Private | 102 | 38 | 38 | 38 | 38 | 38 |
| TOTAL CURRENT RECEIPTS | 1,366 | 1,378 | 1,408 | 1,434 | 1,452 | 1,462 |
| *Payments* | | | | | | |
| Imports of Goods and Non-factor Services | 1,312 | 1,542 | 1,618 | 1,696 | 1,780 | 1,906 |
| Net Lending Abroad | 54 | (164) | (210) | (262) | (328) | (444) |
| TOTAL CURRENT PAYMENTS | 1,366 | 1,378 | 1,408 | 1,434 | 1,452 | 1,462 |

## PHILIPPINES: *Balance of Payments*
## *Fiscal Year 1963–1967*

(U.S. $ Million)

| | 1963 | 1964 | 1966 | 1967 | 1965 | Total 1963 to 1967 |
|---|---|---|---|---|---|---|
| **Exports of Goods and Services** | 702 | 721 | 739 | 757 | 775 | 3,694 |
| **Merchandise Export Receipts** | 552 | 571 | 589 | 607 | 625 | 2,944 |
| **Inflow** [illegible] | 150 | 150 | 150 | 150 | 150 | 750 |
| **Imports of Goods and Services** | 771 | 809 | 848 | 890 | 953 | 4,271 |
| **Balance on Current Trade Account** | (69) | (88) | (109) | (133) | (178) | (577) |
| **Net Donations Received** | 38 | 38 | 38 | 38 | 38 | 190 |
| **Net Remittances of Profits** | 44 | 44 | 44 | 44 | 44 | 220 |
| **Net Inflow of Long Term Capital** | 125 | 144 | 165 | 189 | 234 | 857 |
| **Inflow** [illegible] | 158 | 188 | 214 | 246 | 296 | 1,102 |
| **Outflow** | 26 | 33 | 33 | 32 | 24 | 148 |
| **Servicing of Foreign Investment and Stabilization Fund** [illegible] | 7 | 11 | 16 | 25 | 38 | 97 |
| **Compensatory Balance of Payments** | 50 | 50 | 50 | 50 | 50 | 250 |
| **Net Short-term Capital Movements** | ........ | ........ | ........ | ........ | ........ | ........ |
| **Net Addition to International Reserves** | 50 | 50 | 50 | 50 | 50 | 250 |

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| | | | | | | |
|---|---|---|---|---|---|---|
| [illegible] **PL 480 (of which $22 million is payable in pesos)** | 94 | 94 | 94 | 94 | 94 | 470 |
| **Project Commodity Loan and/or Reparations Loan** | 64 | 50 | 50 | 50 | 50 | 264 |
| **Others** | —— | 44 | 70 | 102 | 152 | 368 |
| [illegible] **Gross Inflow of Foreign Investment (Non PL–480 at 6%)** | ........ | 4 | 9 | 17 | 29 | |
| **Stabilization Fund ($83 million from IMF and rest at 5%)** | 7 | 7 | 8 | 8 | 8 | |

## *Gross Fixed Investment Requirements by Industrial Sector, FY 1963–67*

(In thousand pesos: US $1.00 = P2.00)

| Sector | Private | | | Government | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pesos | Dollars | Total in Pesos | Pesos | Dollars | Total in Pesos | Pesos | Dollars | Total in Pesos |
| Agriculture | 549,340 | 95,600 | 749,630 | 9,090 | 29,780 | 657,570 | 558,340 | 125,380 | 809,100 |
| Mining | 348,206 | 17,824 | 383,854 | 20 | 7,563 | 15,146 | 348,226 | 25,387 | 399,000 |
| Manufacturing | 2,863,302 | 363,140 | 3,589,582 | 86,301 | 125,000 | 336,301 | 2,949,603 | 488,140 | 3,925,883 |
| Construction | 933,200 | 104,800 | 1,142,800 | 1,038,250 | 124,160 | 1,286,570 | 1,971,450 | 228,960 | 2,429,370 |
| Transport and Communication | 1,591,700 | 652,820 | 2,897,340 | 713,150 | 194,570 | 1,102,290 | 2,304,850 | 847,390 | 3,999,630 |
| Other Sectors | 489,987 | | 489,987 | | | | 489,987 | | 489,987 |
| Total | 6,775,735 | 1,234,184 | 9,244,094 | 1,846,761 | 481,073 | 2,808,907 | 8,622,496 | 1,715,257 | 12,053,000 |

### *Gross Fixed Investments in Agriculture, Livestock, Fishing and Forestry*

### *FY 1963–1967*

(In thousand pesos: US $1.00 = ₱2.00)

| Sector | Private Investment |  |  | Government |  |  | Total |  |  |
|---|---|---|---|---|---|---|---|---|---|
|  | Pesos | Dollars | Total in Pesos | Pesos | Dollars | Total in Pesos | Pesos | Dollars | Total in Pesos |
| I. Food Crops: | 148,000 | ............ | 148,600 | ............ | 24,400 | 48,800 | 148,600 | 24,400 | 197,400 |
| Rice | 102,800 | ............ | 102,800 | ............ | 24,400 | 48,800 | 102,800 | 24,400 | 151,600 |
| Corn | 25,000 | ............ | 25,000 | ............ | ............ | ............ | 25,000 | ............ | 25,000 |
| Others (Tubers, etc.) | 20,800 | ............ | 20,800 | ............ | ............ | ............ | 20,800 | ............ | 20,800 |
| II. Fisheries | 113,110 | 45,000 | 203,110 | 1,250 | 320 | 1,890 | 114,360 | 45,320 | 205,000 |
| III. Livestock | 128,900 | 9,600 | 148,120 | 7,750 | 5,060 | 17,880 | 136,650 | 114,660 | 166,000 |
| IV. Other Crops: Commercial | 46,000 | ............ | 46,000 | ............ | ............ | ............ | 46,000 | ............ | 46,000 |
| Fruits, vegetables | 43,000 | ............ | 43,000 | ............ | ............ | ............ | 43,000 | ............ | 43,000 |
| Cotton and other fibers | 1,000 | ............ | 1,000 | ............ | ............ | ............ | 1,000 | ............ | 1,000 |
| Others | 2,000 | ............ | 2,000 | ............ | ............ | ............ | 2,000 | ............ | 2,000 |
| V. Export Crops | 100,000 | 3,000 | 106,000 | ............ | ............ | ............ | 100,000 | 3,000 | 106,000 |
| Sugar | 50,000 | 3,000 | 56,000 | ............ | ............ | ............ | 50,000 | 3,000 | 56,000 |
| Coconut | 30,000 | ............ | 30,000 | ............ | ............ | ............ | 30,000 | ............ | 30,000 |
| Abaca | 10,000 | ............ | 10,000 | ............ | ............ | ............ | 10,000 | ............ | 10,000 |
| Tobacco | 10,000 | ............ | 10,000 | ............ | ............ | ............ | 10,000 | ............ | 10,000 |
| VI. Forestry | 12,700 | 38,000 | 88,700 | ............ | ............ | ............ | 12,700 | 38,000 | 88,700 |
| Totals | 549,310 | 95,600 | 740,580 | 9,000 | 29,780 | 68,570 | 558,310 | 125,380 | 809,100 |

## *Gross Fixed Investments In Mining, Fiscal Year 1963–67*
(In Thousand Pesos: US $1.00 = ₱2.00)

| Sectors | Private | | | Government | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pesos | Dollars | Total in Pesos | Pesos | Dollars | Total in Pesos | Pesos | Dollars | Total in Pesos |
| I. Exploration | | | | | | | | | |
| Oil | 45,171 | 2,410 | 49,991 | 5 | 6,787 | 12,579 | 45,176 | 9,198 | 62,570 |
| Metals | 13,440 | 940 | 15,320 | — | — | — | 13,440 | 940 | 15,320 |
| II. Development | | | | | | | | | |
| A. Metals | | | | | | | | | |
| 1) Precious metals | 48,815 | 2,887 | 53,588 | — | — | — | 48,815 | 2,887 | 53,588 |
| 2) Base metals | 189,198 | 10,656 | 210,510 | — | — | — | 189,198 | 10,656 | 210,510 |
| B. Non-metals | 51,585 | 1,430 | 54,445 | 15 | 776 | 1,567 | 51,600 | 2,206 | 56,012 |
| Total | 348,206 | 17,824 | 383,854 | 20 | 7,563 | 16,146 | 348,226 | 25,387 | 399,000 |

## *Total Gross Fixed Investments In Manufacturing, Fiscal Year 1963–67*
(In Thousand Pesos: US $1.00 = ₱2.00)

| Sectors | Private | | | Government | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pesos | Dollars | Total | Pesos | Dollars | Total | Pesos | Dollars | Total |
| I. Metal Products | 556,570 | 435.140 | 1,426,850 | 69,741 | 120,000 | 309,741 | 626,311 | 555,140 | 1,736,591 |
| A. Basic metals | 179,876 | 92,862 | 365,600 | 62,968 | 100,000 | 262,968 | 242,844 | 192,862 | 628,568 |
| B. Metal products | 73,618 | 36,097 | 145,812 | — | — | — | 73,618 | 36,097 | 145,812 |
| C. Machinery manufacture | 39,777 | 13,131 | 66,039 | 6,772 | 20,000 | 46,772 | 46,549 | 33,131 | 112,811 |
| D. Other related industries | 849,400 | — | 849,400 | — | — | — | 849,400 | — | 849,400 |
| II. Chemicals | 252,285 | 100,900 | 452,285 | — | — | — | 252,285 | 50,000 | 452,285 |
| III. Textiles | 116,269 | 31,433 | 179,572 | — | — | — | 116,269 | 31,433 | 179,572 |
| IV. Food Processing | 149,145 | 15,000 | 179,145 | — | — | — | 149,145 | 15,000 | 179,145 |
| V. Non-Metallic Minerals | 77,289 | 48,989 | 175,267 | — | — | — | 77,289 | 48,989 | 175,267 |
| Cement | 18,062 | 15,251 | 48,564 | — | — | — | 18,062 | 15,251 | 48,564 |
| Ceramics | 17,972 | 16,500 | 50,972 | — | — | — | 17,972 | 16,500 | 50,972 |
| Glass | 19,692 | 1,800 | 23,292 | — | — | — | 19,692 | 1,800 | 23,292 |
| Others | 21,563 | 15,438 | 52,439 | — | — | — | 21,563 | 15,438 | 52,439 |
| VI. Wood Processing (Lumber, plywood and veneer, etc.) | 65,760 | 22,585 | 110,930 | — | — | — | 65,760 | 22,585 | 110,930 |
| VII. Cottage Industries | 58,300 | 16,149 | 90,598 | — | — | — | 58,300 | 16,149 | 90,598 |
| VIII. Pulp and Paper | 93,555 | 61,484 | 216,523 | — | — | — | 93,555 | 61,484 | 216,523 |
| IX. Miscellaneous and Other Industries | 536,440 | — | 536,440 | 16,560 | 5,000 | 26,560 | 553,000 | — | 563,000 |
| Total | 2,363,302 | 363,140 | 3,189,582 | 86,301 | 125,000 | 336,301 | 2,449,603 | 488,140 | 3,525,883 |

## Gross Fixed Investments In Construction, Transport and Communication

### Fiscal Year 1966-1967

(In Thousand Pesos; US $1.00=P2.00)

| | Private | | | Government | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pesos | Dollars | Total in Pesos | Pesos | Dollars | Total in Pesos | Pesos | Dollars | Total in Pesos |
| I. Construction | 932,200 | 104,900 | 1,142,000 | 1,038,250 | 124,160 | 1,286,570 | 1,970,450 | 229,060 | 2,428,570 |
| Residence and housing | 405,000 | 20,000 | 445,000 | 8,000 | 1,900 | 11,800 | 413,000 | 21,900 | 456,800 |
| Buildings | 128,000 | 3,000 | 140,000 | 152,000 | 18,000 | 170,000 | 280,000 | 21,000 | 310,000 |
| Plants | 150,200 | 69,900 | 290,000 | | | | 150,200 | 69,900 | 290,000 |
| Roads and highways | | | | 265,000 | 15,000 | 295,000 | 265,000 | 15,000 | 295,000 |
| Portworks | | | | 60,300 | 6,500 | 73,300 | 60,300 | 6,500 | 73,300 |
| Airports | | | | 60,000 | 9,000 | 78,000 | 60,000 | 9,000 | 78,000 |
| Irrigation | | | | 148,300 | 12,960 | 174,220 | 148,300 | 12,960 | 174,220 |
| Water Supply | | | | 275,750 | 59,400 | 394,550 | 275,750 | 59,400 | 394,550 |
| Flood Control | | | | 62,300 | 7,000 | 76,300 | 62,300 | 7,000 | 76,300 |
| Others | 249,000 | 12,000 | 273,000 | | | | 249,000 | 12,000 | 273,000 |
| II. Transport and Communication and Power | 1,591,700 | 652,920 | 2,897,340 | 713,150 | 194,570 | 1,102,320 | 2,304,850 | 847,490 | 3,999,660 |
| a. Transportation: | | | | | | | | | |
| Railroads | | | | 126,000 | 30,000 | 186,000 | 126,000 | 30,000 | 186,000 |
| Motor | 1,106,700 | 423,320 | 1,953,340 | | | | 1,106,700 | 423,320 | 1,953,340 |
| Ship | 315,000 | 163,800 | 642,600 | | | | 315,000 | 163,800 | 642,600 |
| Air | 90,000 | 33,700 | 157,400 | | | | 90,000 | 33,700 | 157,400 |
| b. Communications: | | | | | | | | | |
| Telecommunications | | | | 71,720 | 18,720 | 109,170 | 71,720 | 18,720 | 109,170 |
| Telephones | 90,000 | 27,000 | 144,000 | | | | 90,000 | 27,000 | 144,000 |
| c. Power | | | | 515,450 | 145,850 | 807,150 | 515,450 | 145,850 | 807,150 |

### *National Income at Factor Cost by Industrial Origin, FY 1963–1967*

(Millions of Pesos at 1960 Prices)

| Sectors | FY 1960 (Actual) | FY 1963 | FY 1964 | FY 1965 | FY 1966 | FY 1967 |
|---|---|---|---|---|---|---|
| Agriculture | 3,472 | 3,702 | 3,835 | 3,973 | 4,116 | 4,257 |
| Industry | 1,970 | 2,542 | 2,819 | 3,126 | 3,467 | 3,850 |
| Construction | 324 | 408 | 450 | 498 | 550 | 607 |
| Basic Facilities, trade and services | 4,488 | 5,433 | 5,604 | 5,809 | 6,067 | 6,448 |
| National Income | 10,254 | 12,085 | 12,708 | 13,406 | 14,209 | 15,162 |

### *Derivation of Private Corporate Income FY 1963–1967*

(Million pesos)

| | FY 1963 | FY 1964 | FY 1965 | FY 1966 | FY 1967 |
|---|---|---|---|---|---|
| Industry | 2,542 | 2,819 | 3,126 | 3,467 | 3,850 |
| Construction | 408 | 450 | 498 | 550 | 607 |
| Total | 2,950 | 3,269 | 3,624 | 4,017 | 4,457 |
| Combined Index: | | | | | |
| 1960 = 2,294 | 1.286 | 1.425 | 1.580 | 1.751 | 1.943 |
| (1960 = 100) | | | | | |
| Private Corporate Income | | | | | |
| 1960 = 545 | 700 | 777 | 861 | 954 | 1,059 |

### *Net Change in Inventories by Sector FY 1963–1967*

(Million pesos)

| | 1963 | 1964 | 1965 | 1966 | 1967 | Total |
|---|---|---|---|---|---|---|
| Agriculture | 31 | 33 | 35 | 37 | 40 | 176 |
| Mining | 4 | 4 | 4 | 4 | 5 | 21 |
| Manufacturing | 59 | 62 | 67 | 72 | 77 | 337 |
| Trade | 19 | 20 | 21 | 22 | 24 | 106 |
| Total | 113 | 119 | 127 | 135 | 146 | 640 |
| Total Fixed Investments | 1,830 | 2,086 | 2,373 | 2,699 | 3,065 | 12,156 |

### *Feasibility of Projected Export Receipts*

| Commodity | Maximum Volume Exported | | 1949-60 FOB Prices Per Metric Ton[16] | | | FOB Value of Volume $ Million | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Thousand Metric Tons[15] | Lowest | Average | Highest | Lowest Price | Average Price | Highest Price | 1960 Value and Actual Exports $ Million |
| 1. **Copra** | 1956 | 966 | $135 | $168 | $203 | 130.4 | 162.3 | 196.1 | 138.6 |
| 2. **Sugar** | 1960 | 1,090 | 109 | 117 | 122 | 118.8 | 127.5 | 133.5 | 133.5 |
| 3. **Logs** | 1960 | 1,454 | 45 | 51 | 58 | 65.4 | 74.2 | 84.5 | 84.5 |
| 4. **Lumber** | 1958 | 78 | 93 | 110 | 123 | 7.2 | 8.6 | 9.6 | 7.1 |
| 5. **Desiccated coconut** | 1960 | 59 | 249 | 307 | 367 | 14.7 | 18.1 | 21.6 | 18.8 |
| 6. **Coconut oil** | 1956 | 109 | 191 | 261 | 347 | 20.8 | 28.4 | 37.8 | 15.7 |
| 7. **Abaca** | 1951 | 128 | 249 | 365 | 525 | 31.0 | 46.7 | 67.2 | 41.8 |
| 8. **Copper concentrate** | 1960 | 165 | 82 | 120 | 215 | 13.5 | 19.8 | 35.5 | 18.3 |
| 9. **Chromite ore** | 1959 | 799 | 12 | 19 | 23 | 9.2 | 15.2 | 18.4 | 17.2 |
| 10. **Iron ore** | 1956 | 1,476 | 7 | 8 | 9 | 10.0 | 12.4 | 13.9 | 8.6 |
| 11. **Canned pineapple** | 1952 | 78 | 138 | 162 | 234 | 10.8 | 12.6 | 18.2 | 7.4 |
| 12. **Cordage** | 1959 | 6 | 357 | 439 | 588 | 2.3 | 2.8 | 3.8 | 3.6 |
| 13. **Molasses** | 1960 | 336 | 10 | 18 | 29 | 3.2 | 5.9 | 9.8 | 4.8 |
| 14. **Copra meal** | 1956 | 100 | 42 | 55 | 67 | 4.2 | 5.5 | 6.7 | 4.9 |
| 15. **Leaf tobacco** | 1959 | 12 | 353 | 428 | 515 | 4.2 | 5.1 | 6.2 | 2.7 |
| Total for fifteen commodities | | | | | | 446.6 | 545.1 | 662.8 | 500.4 |
| Other commodity exports[17] | | | | | | 53.6 | 65.4 | 79.5 | 60.0 |
| ALL COMMODITY EXPORTS | | | | | | 500.2 | 610.5 | 742.3 | 560.4 |
| PROJECTED FOR FY 1965–66 | | | | | | | 607.0 | | |

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[15] Except logs and lumber which are in terms of million board feet.

[16] Except logs and lumber prices in dollars per thousand board feet. Prices of iron ore and molasses and the highest sugar price to the least decimal place was used in computing the value.

[17] Estimated on the assumption of the 1960 proportion to all commodity exports.

APPENDIX I

TO THE

[illegible] MESSAGE

[illegible]

JADO MACAPAGAL

[illegible]

IC PROGRAM

OF

AND SOCIAL
OPMENT

TO FY [illegible]

ONAL ECONOMIC COUNCIL
UARY 2, 1962

National Economic Council
Manila, Philippines